



SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2003

Commission File Number 0-21656

**UNITED COMMUNITY BANKS, INC.**

(Exact name of registrant as specified in its charter)

<b>Georgia</b>	<b>58-180-7304</b>
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
63 Highway 515 Blairsville, Georgia	30512
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(706) 781-2265**

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

Name of exchange on which registered: None

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

Aggregate market value of the voting stock held by non-affiliates of the Registrant: \$475,153,011 (based on shares held by non-affiliates at \$24.98 per share, the closing stock price on the Nasdaq stock market on June 30, 2003).

As of February 29, 2004, 23,749,177 shares of common stock were issued and outstanding, including 248,000 shares deemed outstanding pursuant to prime plus 1/4% convertible subordinated payable-in-kind debentures due December 31, 2006 and presently exercisable options to acquire 723,604 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on April 28, 2004 are incorporated herein into Part III by reference.

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**PART I**

**ITEM 1. BUSINESS.**

**United and the Banks**

United Community Banks, Inc. (“United”), a bank holding company registered under the Bank Holding Company Act of 1956, 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, Blairsville, Georgia, now known as United Community Bank (“UCB-Georgia”). Substantially all of United’s activities are currently conducted by its wholly-owned state chartered bank subsidiaries: UCB-Georgia, which was organized in 1949 and began business in 1950; United Community Bank, Brevard, North Carolina (“UCB-North Carolina”), which United acquired in 1990; and United Community Bank Tennessee, Lenoir City, Tennessee (“UCB-Tennessee”), which United acquired in 2003. UCB-Georgia, UCB-North Carolina and UCB-Tennessee are collectively referred to in this report as the “Banks.”

Since the early 1990’s, United has actively expanded its market coverage through organic growth and through a series of acquisitions, primarily of banks whose managements share United’s community banking and customer service philosophies. Although those acquisitions have contributed approximately thirty percent of United’s overall growth since 1993, their contribution has mostly been to open up new markets that have above average organic growth potential. Organic growth and selective openings of de novo offices, as well as acquisitions, will continue to be a focus of United’s growth strategy to extend United’s reach into new and existing markets.

The Banks are community-oriented, offering a full range of retail and corporate banking services, including checking, savings, and time deposit accounts, secured and unsecured loans, wire transfers, brokerage services, and rental of safe deposit boxes. As of December 31, 2003, the Banks operated through 72 locations. To emphasize the commitment to community banking, United’s three bank subsidiaries operate with decentralized management that is currently organized as twenty community banks (“Community Banks”) with local bank presidents (referred to herein as the “Presidents”) who are tied to the communities they serve and have the authority, alone or with other local officers, to make most credit decisions.

United completed its acquisitions of First Central Bancshares, Inc., a Tennessee bank holding company, First Georgia Holding, Inc., a coastal Georgia bank holding company, and three western North Carolina RBC Centura Bank branches during 2003. These acquisitions added \$518 million in assets and \$484 million in deposits. In addition, United opened a de novo bank in Savannah, Georgia, two de novo banking offices in western North Carolina and a de novo banking office in north Georgia during 2003.

**Non-Bank Activities**

In addition, United owns an insurance agency, United Community Insurance Services, Inc. (“UCIS”), which is a subsidiary of UCB-Georgia.

United Community Mortgage Services (“UCMS”), formerly known as The Mortgage People Company, a division of UCB-Georgia, is a full-service retail mortgage lending operation approved as a seller/servicer for Federal National Mortgage Association and Federal Home Mortgage Corporation and provides fixed and adjustable-rate home mortgages. During 2003, UCMS originated \$373 million of residential mortgage loans for the purchase of homes and to refinance existing mortgage debt, of which substantially all were sold into the secondary market with no recourse to UCMS.

Acquired by United in 2000, Brintech, Inc. (“Brintech”) is a consulting firm for the financial services industry. Brintech provides consulting, advisory, and implementation services in the areas of strategic planning, profitability improvement, technology, efficiency, security, network, Internet banking, web site development, marketing, core processing, and telecommunications.

United provides retail brokerage services through an affiliation with a third party broker/dealer.

## **Forward-Looking Statements**

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

## **Monetary Policy And Economic Conditions**

The Banks' profitability depends to a substantial extent on the difference between revenue the Banks receive from their loans, investments, and other earning assets, and the interest the Banks pay on their deposits and other liabilities. These rates are highly sensitive to many factors that are beyond the control of the Banks, including national and international economic conditions and the monetary policies of various governmental and regulatory authorities.

**Competition**

The market for banking and bank-related services is highly competitive. The Banks actively compete in their respective market areas, which collectively include metro Atlanta, north Georgia, coastal Georgia, western North Carolina and east Tennessee, with other providers of deposit and credit services. These competitors include other commercial banks, savings banks, savings and loan associations, credit unions, mortgage companies, and brokerage firms. The following table displays each of the Banks and the respective percentage of total bank and thrift deposits in each county where the Bank has operations. The table also indicates the ranking by deposit size in each of the local markets. All information in the table was obtained from the Federal Deposit Insurance Corporation Summary of Deposits as of June 30, 2003.

**United Community Banks, Inc.  
Share of Local Markets by County  
Banks and Savings Institutions**

	Market Share	Rank in Market
<b>UCB-Georgia</b>		
Metro Atlanta		
Bartow	6%	7
Carroll	4	8
Cherokee	1	14
Cobb	2	11
Dawson	35	2
Douglas	1	11
Forsyth	1	14
Paulding	2	7
North Georgia		
Chattooga	30	2
Fannin	56	1
Floyd	11	5
Gilmer	16	2
Habersham	13	4
Hall	1	11
Lumpkin	25	3
Rabun	24	3
Towns	35	2
Union	81	1
White	48	1
Coastal Georgia		
Glynn	18	3
Ware	9	6
<b>UCB-North Carolina</b>		
Avery	13	4
Cherokee	43	1
Clay	66	1
Graham	77	1
Haywood	11	5
Henderson	2	11
Jackson	18	2
Macon	7	5
Mitchell	14	3
Swain	18	2
Transylvania	31	1
<b>UCB-Tennessee</b>		
Blount	2	10
Knox	1	14
Loudon	18	3
Monroe	1	11
Roane	7	5
Monroe	1	11
Roane	7	5

**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, 2003, commercial (commercial and industrial), commercial (secured by real estate), construction (secured by real estate), residential mortgage and installment loans represented approximately 6%, 26%, 31%, 32% and 5%, respectively, of United's total loan portfolio.

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

Commercial (commercial and industrial)	Industry concentrations; inability to monitor the condition of collateral (inventory, accounts receivable and vehicles); lack of borrower management expertise, increased competition; use of specialized or obsolete equipment as collateral; insufficient cash flow from operations to service debt payment.
Commercial (secured by real estate)	Declines in general economic conditions and occupancy rates; business failure and lack of a suitable alternative use for property; environmental contamination.
Construction (secured by real estate)	Inadequate long-term financing arrangements; cost overruns, changes in market demand for property.
Residential mortgage	Changes in local economy affecting borrower's employment; insufficient collateral value due to decline in property value.
Installment	Loss of borrower's employment; changes in local economy; the inability to monitor collateral (vehicles and boats).

**Lending Policy**

The current lending policy of the Banks is to make loans primarily to persons or businesses that reside, work, own property, or operate in their primary market areas. Unsecured loans are generally made only to persons who qualify for such credit based on net worth and liquidity. Secured loans are made to persons who are well established and have net worth, collateral, and cash flow to support the loan. Exceptions to the Banks' policies are permitted on a case-by-case basis and require the approving officer to document in writing the reason for the exception. Policy exceptions made for borrowers whose total aggregate loans exceed the approving officer's credit limit must be approved through the credit approval process. Policy exceptions made for borrowers whose aggregate loans exceed \$5 million must be approved by the Banks' Boards of Directors for ratification.

United's Credit Administration department provides each lending officer with written guidelines for lending activities as approved by the Banks' Boards of Directors. Limited lending authority is delegated to lending officers by United's Management Credit and Policy Committee as authorized by the Banks' Boards of Directors. Loans in excess of individual officer credit authority must be approved by a senior officer with sufficient approval authority delegated by the Management Credit and Policy Committee as authorized by the Banks' Boards of Directors. Loans to borrowers whose total aggregate loans exceed \$12.5 million require the additional approval of two United directors.



## Regional Credit Managers

United utilizes its Regional Credit Managers to provide credit administration support to the Banks as needed. The Regional Credit Managers have joint lending approval authority with the Presidents within varying limits set by the Management Credit and Policy Committee based on characteristics of each market. The Regional Credit Managers also provide credit underwriting support as needed by the Banks they serve.

## Loan Review and Non-performing Assets

The Loan Review Department of United reviews, or engages an independent third party to review, the Banks' loan portfolios on an ongoing basis to identify any weaknesses in the portfolio and to assess the general quality of credit underwriting. The results of such reviews are presented to the Presidents of each of the Community Banks, the Chief Credit Officer of United, and the Boards of Directors of each of the Community Banks. If an individual loan or credit relationship has a weakness identified during the review process, the risk rating of the loan, or all loans comprising a credit relationship, will be downgraded to a classification that most closely matches the current risk level. The review process also provides for the upgrade of loans that show improvement since the last review. Since each loan in a credit relationship may have a different credit structure, collateral, and other secondary source of repayment, different loans in a relationship can be assigned different risk ratings. Under United's 10-grade loan grading system, grades 1 through 6 are considered "pass" (acceptable) credit risk, grade 7 is a "watch" rating, and grades 8 through 10 are "adversely classified" credits that require management's attention. Both the pass and adversely classified ratings, and the entire 10-grade rating scale, provide for a higher numeric rating for increased risk. For example, a risk rating of 1 is the least risky of all credits and would be typical of a loan that is 100% secured by a deposit at one of the Banks. Risk ratings of 2 through 6 in the pass category each have incrementally more risk. The four watch list credit ratings and rating definitions are:

7 (Watch)	Weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past-due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.
8 (Substandard)	Specific and well-defined weaknesses that may include poor liquidity and deterioration of financial ratios. Loan may be past-due and related deposit accounts experiencing overdrafts. Immediate corrective action is necessary.
9 (Doubtful)	Specific weaknesses characterized by Substandard that are severe enough to make collection in full unlikely. No reliable secondary source of full repayment.
10 (Loss)	Same characteristics as Doubtful, however, probability of loss is certain. Loans classified as such are generally charged-off at the next Bank Board of Directors meeting.

In addition, the Loan Review Department conducts a quarterly analysis to determine the adequacy of the Allowance for Loan Losses ("ALL") for each of the Banks. The aggregation of these ALL analyses provides the consolidated analysis for United. The ALL analysis starts by taking total loans and deducting loans secured by deposit accounts at the Banks, which effectively have no risk of loss. Next, all loans with an adversely classified rating are deducted, including loans considered impaired. The remaining loan balance is then multiplied by loss factors that were derived from the average historical loss rate for the preceding two year period, adjusted to reflect current economic conditions, which provides a required minimum ALL for pass credits. The remaining total loans in each of the four watch list rating categories are then multiplied by the following loss factors: Watch (5%); Substandard (25%); Doubtful (50%); and Loss (100%). Loans that are considered impaired are evaluated separately and are assigned specific reserves as necessary.

## Asset/Liability Committees (ALCO)

United's ALCO Committee is composed of the Executive Officers and the Treasurer of United. The Banks' ALCO Committees are composed of executive officers of each of the Banks and the Treasurer of United. The ALCO Committees are charged with managing the assets and liabilities of United and each of the Banks. The ALCO Committees attempt to manage asset growth, liquidity, and capital to maximize income and reduce interest rate risk, market risk and liquidity risk. The ALCO Committees direct each Bank's overall acquisition and allocation of funds. At periodic meetings, the committees review the monthly asset and liability funds budget in relation to the actual flow of funds; 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 stress testing expected loan demand, investment opportunities, core deposit growth within specified categories, regulatory changes, monetary policy adjustments and the overall state of the economy. A more comprehensive discussion of United's Asset/Liability Management and interest rate risk is contained in the *Management's Discussion and Analysis* (Part II, Item 7) and *Quantitative and Qualitative Disclosures About Market Risk* (Part II, Item 7A) sections of this report.

## Investment Policy

The Banks' investment portfolio policy is to maximize income within liquidity, asset quality and regulatory constraints. The policy is reviewed from time to time by United's Asset/Liability Committee and the Banks' Boards of Directors. Individual transactions, portfolio composition, and performance are reviewed and approved periodically by the Banks' Boards of Directors or a committee thereof. The Chief Financial Officer and Treasurer of United and the President of each of the Banks administer the policy and report information to the Boards of Directors on a quarterly basis concerning sales, purchases, maturities and calls, resultant gains or losses, average maturity, federal taxable equivalent yields, and appreciation or depreciation by investment categories.

## Employees

As of December 31, 2003, United and its subsidiaries had 1,296 full-time equivalent employees. Neither United nor any of the subsidiaries was a party to any collective bargaining agreement, and United believes that employee relations are good.

## Supervision And Regulation

The following is an explanation of the supervision and regulation of United and the Banks as financial institutions. This explanation does not purport to describe state, federal or Nasdaq National Market supervision and regulation of general business corporations or Nasdaq listed companies.

**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 Federal Reserve's prior approval before (1) 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; (2) it or any of its non-bank subsidiaries may acquire all or substantially all of the assets of a bank; and (3) 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 listed in the Act or found by the Federal Reserve, by order or regulation, to be 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 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.

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Although the activities of bank holding companies have traditionally been limited to the business of banking and activities closely related or incidental to banking (as discussed above), the Gramm-Leach-Bliley Act relaxed the previous limitations thus permitting bank holding companies to engage in a broader range of financial activities. Specifically, bank holding companies may elect to become financial holding companies which may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. Among the activities that are deemed “financial in nature” include:

- lending, exchanging, transferring, investing for others or safeguarding money or securities;
- insuring, guaranteeing, or indemnifying against loss, harm, damage, illness, disability, or death, or providing and issuing annuities, and acting as principal, agent, or broker with respect thereto;
- providing financial, investment, or economic advisory services, including advising an investment company;
- issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly; and
- underwriting, dealing in or making a market in securities.

A bank holding company may become a financial holding company under this statute only if each of its subsidiary banks is well capitalized, is well managed and has at least a satisfactory rating under the Community Reinvestment Act. A bank holding company that falls out of compliance with such requirement may be required to cease engaging in certain activities. Any bank holding company that does not elect to become a financial holding company remains subject to the current restrictions of the Act.

Under this legislation, the Federal Reserve Board serves as the primary “umbrella” regulator of financial holding companies with supervisory authority over each parent company and limited authority over its subsidiaries. The primary regulator of each subsidiary of a financial holding company will depend on the type of activity conducted by the subsidiary. For example, broker-dealer subsidiaries will be regulated largely by securities regulators and insurance subsidiaries will be regulated largely by insurance authorities.

United has no immediate plans to register as a financial holding company.

United must also register with the Georgia Department of Banking and Finance (“DBF”) and file periodic information with the DBF. As part of such registration, the DBF requires information with respect to the financial condition, operations, management and intercompany relationships of United and the Banks and related matters. The DBF may also require such other information as is necessary to keep itself informed as to whether the provisions of Georgia law and the regulations and orders issued thereunder by the DBF have been complied with, and the DBF may examine United and each of the Banks. The North Carolina Banking Commission (“NCBC”), which has the statutory authority to regulate non-banking affiliates of North Carolina banks, in 1992 began using this authority to examine and regulate the activities of North Carolina-based holding companies owning North Carolina-based banks. Although the NCBC has not exercised its authority to date to examine and regulate holding companies outside of North Carolina that own North Carolina banks, it is likely the NCBC may do so in the future. The Tennessee Department of Financial Institutions (“TDFI”) does not examine and regulate out-of-state holding companies.

United is an “affiliate” of the Banks under the Federal Reserve Act, which imposes certain restrictions on (1) loans by the Banks to United, (2) investments in the stock or securities of United by the Banks, (3) the Banks’ taking the stock or securities of an “affiliate” as collateral for loans by the Bank to a borrower, and (4) 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-Georgia as a state banking association organized under Georgia law, is subject to the supervision of, and is regularly examined by, the DBF. UCB-North Carolina is subject to the supervision of, and is regularly examined by, the NCBC. UCB-Tennessee is subject to the supervision of, and is regularly examined by, the TDFI. Both the FDIC and the respective state bank regulators must grant prior approval of any merger, consolidation or other corporation reorganization involving UCB-Georgia, UCB-North Carolina and UCB-Tennessee. 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 revenue of United results 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.

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UCB-Georgia is a state chartered bank 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 UCB-North Carolina may declare a dividend for as much of the undivided profits of UCB-North Carolina as it deems appropriate.

UCB-Tennessee is a state chartered bank regulated by the TDFI and the FDIC. Under Tennessee law, dividends may not be declared out of undivided profits of a state bank without first obtaining the written permission of the TDFI unless:

- (a) the undivided profits account has been properly maintained with all applicable adjustments and transfers; and
- (b) the required reserve against deposits is not and will not be impaired

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, 2003, net assets available from the Banks to pay dividends without prior approval from regulatory authorities totaled approximately \$21 million. For 2003, United's declared cash dividend payout to common stockholders (Based on operating earnings which excludes merger-related charges. See page 18 for a discussion of merger-related charges and use of non-GAAP earnings measures.) was 17.3% of net income.

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

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

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In addition, Section 38 of 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 I 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 I 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 I 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 I risk-based ratio of under 3% or a leverage ratio of under 3%; and (5) a "critically undercapitalized" institution has a leverage ratio of 2% or less. Institutions in any of the three undercapitalized categories would be prohibited from declaring dividends or making capital distributions. The FDIC regulations also establish procedures for "downgrading" an institution to a lower capital category based on supervisory factors other than capital. As of December 31, 2003 and 2002, the most recent notifications from the FDIC categorized each of the Banks as "well capitalized" under current regulations.

## **Loans**

Inter-agency guidelines adopted by federal bank regulators mandate that financial institutions establish real estate lending policies with maximum allowable real estate loan-to-value limits, subject to an allowable amount of non-conforming loans as a percentage of capital. The Banks adopted the federal guidelines as their maximum allowable limits in 2001; however, policy exceptions are permitted for real estate loan customers with justification.

**Transactions with Affiliates.** Under federal law, all transactions between and among a state nonmember bank and its affiliates, which include holding companies, are subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder as interpreted by the FDIC. Generally, these requirements limit these transactions to a percentage of the bank's capital and require all of them to be on terms at least as favorable to the bank as transactions with non-affiliates. In addition, a bank may not lend to any affiliate engaged in non-banking activities not permissible for a bank holding company or acquire shares of any affiliate that is not a subsidiary. The FDIC is authorized to impose additional restrictions on transactions with affiliates if necessary to protect the safety and soundness of a bank. The regulations also set forth various reporting requirements relating to transactions with affiliates.

**Available Information.** United's Internet website address is [www.ucbi.com](http://www.ucbi.com). United makes available free of charge through its website Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with, or furnished to, the Securities & Exchange Commission.

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**Executive Officers Of United**

Executive Officers of United are elected by the Board of Directors annually and serve at the pleasure of the Board of Directors.

The Executive Officers of United, and their ages, positions with United and terms of office as of February 29, 2004, are as follows:

<u>Name (age)</u>	<u>Position with United</u>	<u>Officer of United Since</u>
Jimmy C. Tallent (51)	President, Chief Executive Officer and Director of United	1988
Guy W. Freeman (67)	Executive Vice President of Banking and Director of United	1995
Rex S. Schuette (54)	Executive Vice President and Chief Financial Officer of United since February 2001; prior to joining United, he was Senior Vice President and Chief Accounting Officer of State Street Corporation	2001
Thomas C. Gilliland (56)	Executive Vice President, Secretary, General Counsel and Director of United	1992
Ray K. Williams (58)	Executive Vice President of Risk Management of United since March 2002; prior to joining United, he was a private investor from 1996 to 2002, before that he was Corporate Senior Credit Officer of Bank South Corporation	2002
Craig Metz (48)	Executive Vice President of Marketing of United since August 2002; prior to joining United, he was Executive Vice President of Consumer Marketing Services of Assurant Group — Fortis Company	2002
William M. Gilbert (51)	Senior Vice President of Retail Banking of United since June 2003; prior to this, he was President of United Community Bank - Summerville	2003

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

**ITEM 2. PROPERTIES.**

The executive offices of United are located at 220 Earnest Street, Blairsville, Georgia. United leases this property. The Banks conduct business from facilities primarily owned by the respective banks, all of which are in a good state of repair and appropriately designed for use as banking facilities. The Banks provide services or perform operational functions at 87 locations, of which 68 locations are owned and 19 are leased. Note 7 to United's Consolidated Financial Statements includes additional information regarding amounts invested in premises and equipment.

**ITEM 3. LEGAL PROCEEDINGS.**

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

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

No matters were submitted to a vote of the security holders of United during the fourth quarter of the fiscal year covered by this report.

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

**Stock.** On March 18, 2002, United began trading on The Nasdaq Stock Market under the symbol UCBI. Previously, the stock was not listed on an exchange, nor was it included on an automated quotation system. The closing price for the period ended December 31, 2003 was \$32.87. Below is a schedule of high and low stock sales prices for all quarters in 2003 and 2002. For periods prior to March 18, 2002, prices are based on high and low bid information known to United.

**Stock Price Information**

(All prior period amounts have been restated to reflect the 2 for 1 stock split effective May 29, 2002)

	2003		2002	
	High	Low	High	Low
First quarter	\$27.00	\$22.00	\$28.60	\$19.00
Second quarter	27.00	23.06	30.00	23.96
Third quarter	30.03	24.51	29.55	23.15
Fourth quarter	35.90	27.76	27.00	21.73

At March 10, 2004, there were approximately 8,700 shareholders of record.

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

**Dividends.** United declared cash dividends of \$.30, \$.25 and \$.20 per common share in 2003, 2002 and 2001, respectively. Federal and state laws and regulations impose restrictions on the ability of United and the Banks to pay dividends. Additional information regarding this item is included in Note 15 to the Consolidated Financial Statements and under the heading of "Supervision and Regulation" in Part I of this report.

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**ITEM 6. SELECTED FINANCIAL DATA**
**UNITED COMMUNITY BANKS, INC.**
**Selected Financial Information**
**For the Years Ended December 31,**

(in thousands, except per share data; taxable equivalent)	2003	2002	2001	2000	1999	1998	5 Year CAGR
<b>INCOME SUMMARY</b>							
Interest revenue	\$ 209,338	\$ 195,932	\$ 210,036	\$ 213,115	\$ 171,211	\$ 135,706	
Interest expense	70,600	76,357	100,874	116,591	90,242	67,664	
Net interest revenue	138,738	119,575	109,162	96,524	80,969	68,042	15%
Provision for loan losses	6,300	6,900	6,000	7,264	5,966	3,014	
Fee revenue	38,184	30,734	25,267	18,867	15,693	12,979	24
<b>Total revenue</b>	<b>170,622</b>	<b>143,409</b>	<b>128,429</b>	<b>108,127</b>	<b>90,696</b>	<b>78,007</b>	<b>17</b>
Operating expenses <sup>(1)</sup>	107,900	91,124	83,906	74,043	63,505	53,104	15
Income before taxes	62,722	52,285	44,523	34,084	27,191	24,903	20
Income taxes	23,247	19,505	16,208	12,337	9,938	9,253	
<b>Net operating income</b>	<b>39,475</b>	<b>32,780</b>	<b>28,315</b>	<b>21,747</b>	<b>17,253</b>	<b>15,650</b>	<b>20</b>
Merger-related charges, net of tax	1,357	—	1,084	7,230	1,155	—	
<b>Net income</b>	<b>\$ 38,118</b>	<b>\$ 32,780</b>	<b>\$ 27,231</b>	<b>\$ 14,517</b>	<b>\$ 16,098</b>	<b>\$ 15,650</b>	<b>19</b>
<b>OPERATING PERFORMANCE</b>							
<b>(1)</b>							
Earnings per common share:							
Basic	\$ 1.73	\$ 1.53	\$ 1.33	\$ 1.05	\$ .86	\$ .78	17
Diluted	1.68	1.48	1.30	1.03	.84	.77	17
Return on tangible equity <sup>(3)</sup>	19.24%	17.88%	18.19%	16.74%	16.37%	16.59%	
Return on assets	1.06	1.11	1.10	.89	.81	1.00	
Efficiency ratio	60.89	60.66	62.52	64.15	66.07	66.20	
Dividend payout ratio	17.34	16.34	15.04	14.24	11.68	9.55	
<b>GAAP PERFORMANCE Per common share:</b>							
Basic earnings	\$ 1.67	\$ 1.53	\$ 1.28	\$ .70	\$ .80	\$ .78	16
Diluted earnings	1.62	1.48	1.25	.69	.78	.77	16
Cash dividends declared	.30	.25	.20	.15	.10	.075	32
Book value	12.70	10.34	8.97	7.40	5.91	5.86	17
Tangible book value <sup>(3)</sup>	9.77	9.74	8.10	6.74	5.89	5.40	13
Key performance ratios:							
Return on equity <sup>(2)</sup>	14.79%	16.54%	16.08%	10.04%	13.46%	14.91%	
Return on assets	1.02	1.11	1.05	.59	.75	1.00	
Net interest margin	3.99	4.33	4.51	4.16	4.07	4.69	
Dividend payout ratio	17.96	16.34	15.63	21.28	12.50	9.55	
Equity to assets	7.21	7.01	6.81	5.58	5.47	6.78	
Tangible equity to assets <sup>(3)</sup>	6.02	6.60	6.18	5.49	5.19	6.27	
<b>ASSET QUALITY</b>							
Allowance for loan losses	\$ 38,655	\$ 30,914	\$ 27,124	\$ 24,698	\$ 20,043	\$ 14,402	
Non-performing assets	7,589	8,019	9,670	6,716	3,652	2,274	
Net charge-offs	4,097	3,111	4,578	2,976	2,147	1,016	
Allowance for loan losses to loans	1.28%	1.30%	1.35%	1.38%	1.28%	1.20%	
Non-performing assets to total assets	.19	.25	.35	.27	.15	.13	
Net charge-offs to average loans	.15	.14	.25	.18	.15	.09	
<b>AVERAGE BALANCES</b>							
Loans	\$2,753,451	\$2,239,875	\$1,854,968	\$1,683,403	\$1,391,858	\$1,089,792	20
Investment securities	667,211	464,468	489,332	586,222	555,832	315,677	16
Earning assets	3,476,030	2,761,265	2,419,080	2,319,389	1,987,825	1,452,740	19
Total assets	3,721,284	2,959,295	2,585,290	2,453,250	2,139,594	1,565,315	19
Deposits	2,743,087	2,311,717	2,010,105	1,941,496	1,659,534	1,328,843	16
Stockholders' equity	268,446	207,312	176,144	136,810	117,064	106,096	20
Common shares outstanding:							
Basic	22,754	21,375	21,127	20,600	20,158	19,998	
Diluted	23,501	22,161	21,749	21,194	20,842	20,610	
<b>AT PERIOD END</b>							
Loans	\$3,015,997	\$2,381,798	\$2,007,990	\$1,792,055	\$1,564,148	\$1,203,495	20
Investment securities	659,891	559,390	470,176	508,266	589,697	443,321	8
Earning assets	3,796,332	3,029,409	2,554,530	2,352,475	2,195,712	1,678,016	18
Total assets	4,068,834	3,211,344	2,749,257	2,528,879	2,384,678	1,813,004	18
Deposits	2,857,449	2,385,239	2,116,499	1,995,865	1,869,379	1,432,224	15
Stockholders' equity	299,373	221,579	194,665	158,388	119,312	115,364	21
Common shares outstanding	23,526	21,263	21,511	21,028	20,189	19,672	



- (1) Excludes pre-tax merger-related and restructuring charges totaling \$2.1 million, or \$.06 per diluted common share, recorded in 2003; \$1.6 million, or \$.05 per diluted common share, recorded in 2001; \$10.6 million, or \$.34 per diluted common share, recorded in 2000; and \$1.8 million, or \$.06 per diluted common share, recorded in 1999.
- (2) Net income available to common stockholders divided by average realized common equity which excludes accumulated other comprehensive income.
- (3) Excludes effect of acquisition related intangibles and associated amortization.

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**UNITED COMMUNITY BANKS, INC.**  
**Selected Financial Information (continued)**

2003

(in thousands, except per share data; taxable equivalent)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>INCOME SUMMARY</b>				
Interest revenue	\$ 53,943	\$ 53,731	\$ 53,261	\$ 48,403
Interest expense	17,098	17,446	18,467	17,589
Net interest revenue	36,845	36,285	34,794	30,814
Provision for loan losses	1,800	1,500	1,500	1,500
Fee revenue	9,090	10,401	10,316	8,377
<b>Total revenue</b>	<b>44,135</b>	<b>45,186</b>	<b>43,610</b>	<b>37,691</b>
Operating expenses <sup>(1)</sup>	27,572	28,712	27,699	23,917
Income before taxes	16,563	16,474	15,911	13,774
Income taxes	5,959	6,110	6,014	5,164
<b>Net operating income</b>	<b>10,604</b>	<b>10,364</b>	<b>9,897</b>	<b>8,610</b>
Merger-related charges, net of tax	383	—	428	546
<b>Net income</b>	<b>\$ 10,221</b>	<b>\$ 10,364</b>	<b>\$ 9,469</b>	<b>\$ 8,064</b>
<b>OPERATING PERFORMANCE <sup>(1)</sup></b>				
Earnings per common share:				
Basic	\$ .45	\$ .44	\$ .43	\$ .40
Diluted	.44	.43	.42	.39
Return on tangible equity <sup>(3)</sup>	19.72%	19.94%	19.54%	17.79%
Return on assets	1.06	1.06	1.06	1.07
Efficiency ratio	59.81	61.34	61.40	61.03
Dividend payout ratio	16.67	17.05	17.44	18.75
<b>GAAP PERFORMANCE</b>				
Per common share:				
Basic earnings	\$ .43	\$ .44	\$ .41	\$ .38
Diluted earnings	.42	.43	.40	.37
Cash dividends declared	.075	.075	.075	.075
Book value	12.70	12.31	12.22	11.09
Tangible book value <sup>(3)</sup>	9.77	9.66	9.55	9.59
Key performance ratios:				
Return on equity <sup>(2)</sup>	14.19%	14.90%	14.76%	15.50%
Return on assets	1.02	1.06	1.01	1.00
Net interest margin	3.96	3.97	3.99	4.05
Dividend payout ratio	17.44	17.05	18.29	19.74
Equity to assets	7.41	7.35	7.19	6.84
Tangible equity to assets <sup>(3)</sup>	5.82	5.85	6.03	6.47
<b>ASSET QUALITY</b>				
Allowance for loan losses	\$ 38,655	\$ 37,773	\$ 37,353	\$ 33,022
Non-performing assets	7,589	7,998	8,232	7,745
Net charge-offs	918	1,080	1,069	1,030
Allowance for loan losses to loans	1.28%	1.29%	1.31%	1.30%
Non-performing assets to total assets	.19	.20	.21	.22
Net charge-offs to average loans	.12	.15	.16	.17
<b>AVERAGE BALANCES</b>				
Loans	\$2,959,626	\$2,881,375	\$2,742,952	\$2,422,542
Investment securities	699,059	664,523	689,384	614,981
Earning assets	3,695,197	3,629,819	3,497,851	3,072,719
Total assets	3,961,384	3,888,141	3,756,689	3,269,481
Deposits	2,843,600	2,826,900	2,829,986	2,466,801
Stockholders' equity	293,464	285,790	269,972	223,599
Common shares outstanding:				
Basic	23,506	23,408	22,853	21,218
Diluted	24,260	24,123	23,592	21,957
<b>AT PERIOD END</b>				
Loans	\$3,015,997	\$2,918,412	\$2,861,481	\$2,546,001
Investment securities	659,891	634,421	660,625	658,546
Earning assets	3,796,332	3,676,018	3,642,545	3,304,232
Total assets	4,068,834	3,942,139	3,905,929	3,579,004
Deposits	2,857,449	2,790,331	2,870,926	2,723,574
Stockholders' equity	299,373	289,713	285,500	245,699
Common shares outstanding	23,526	23,488	23,311	22,037

[Additional columns below]

2002

(in thousands, except per share data; taxable equivalent)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>INCOME SUMMARY</b>				
Interest revenue	\$ 48,579	\$ 49,076	\$ 49,326	\$ 48,951
Interest expense	18,964	18,942	18,761	19,690
Net interest revenue	29,615	30,134	30,565	29,261
Provision for loan losses	1,800	1,800	1,800	1,500
Fee revenue	8,784	7,727	7,302	6,921
<b>Total revenue</b>	<b>36,599</b>	<b>36,061</b>	<b>36,067</b>	<b>34,682</b>
Operating expenses <sup>(1)</sup>	23,005	22,551	23,195	22,373
Income before taxes	13,594	13,510	12,872	12,309
Income taxes	5,034	5,109	4,773	4,589
<b>Net operating income</b>	<b>8,560</b>	<b>8,401</b>	<b>8,099</b>	<b>7,720</b>
Merger-related charges, net of tax	—	—	—	—
<b>Net income</b>	<b>\$ 8,560</b>	<b>\$ 8,401</b>	<b>\$ 8,099</b>	<b>\$ 7,720</b>
<b>OPERATING PERFORMANCE <sup>(1)</sup></b>				
Earnings per common share:				
Basic	\$ .40	\$ .39	\$ .38	\$ .36
Diluted	.39	.38	.36	.35
Return on tangible equity <sup>(3)</sup>	17.68%	17.88%	18.05%	17.94%
Return on assets	1.08	1.12	1.12	1.12
Efficiency ratio	59.94	59.66	61.25	61.83
Dividend payout ratio	15.63	16.03	16.45	17.36
<b>GAAP PERFORMANCE</b>				
Per common share:				
Basic earnings	\$ .40	\$ .39	\$ .38	\$ .36
Diluted earnings	.39	.38	.36	.35
Cash dividends declared	.0625	.0625	.0625	.0625
Book value	10.34	10.01	9.71	9.11
Tangible book value <sup>(3)</sup>	9.74	9.41	9.10	8.50
Key performance ratios:				
Return on equity <sup>(2)</sup>	16.42%	16.56%	16.67%	16.52%
Return on assets	1.08	1.12	1.12	1.12
Net interest margin	4.03	4.31	4.51	4.51
Dividend payout ratio	15.63	16.03	16.45	17.36
Equity to assets	6.92	7.15	6.95	7.02
Tangible equity to assets <sup>(3)</sup>	6.53	6.74	6.53	6.58
<b>ASSET QUALITY</b>				
Allowance for loan losses	\$ 30,914	\$ 30,300	\$ 29,190	\$ 28,134
Non-performing assets	8,019	9,591	9,221	9,130
Net charge-offs	1,186	690	745	490
Allowance for loan losses to loans	1.30%	1.30%	1.29%	1.31%
Non-performing assets to total assets	.25	.31	.31	.32
Net charge-offs to average loans	.20	.12	.14	.10
<b>AVERAGE BALANCES</b>				
Loans	\$2,358,021	\$2,300,681	\$2,211,980	\$2,085,153
Investment securities	507,548	435,033	443,168	472,055
Earning assets	2,919,613	2,780,276	2,717,074	2,624,650
Total assets	3,138,747	2,976,509	2,911,514	2,806,575
Deposits	2,408,773	2,378,656	2,286,231	2,169,845
Stockholders' equity	217,051	212,703	202,319	196,895
Common shares outstanding:				
Basic	21,293	21,392	21,407	21,407
Diluted	22,078	22,233	22,383	22,063
<b>AT PERIOD END</b>				
Loans	\$2,381,798	\$2,331,862	\$2,269,973	\$2,153,743
Investment securities	559,390	460,673	426,076	443,476
Earning assets	3,029,409	2,908,577	2,823,262	2,680,066
Total assets	3,211,344	3,142,393	3,014,608	2,871,843
Deposits	2,385,239	2,386,962	2,340,376	2,256,236
Stockholders' equity	221,579	215,430	209,587	196,703
Common shares outstanding	21,263	21,345	21,414	21,400

(1) Excludes pre-tax merger-related charges totaling \$580,000 or \$.02 per diluted common share, \$668,000 or \$.02 per diluted common share and \$840,000 or \$.02 per diluted common share recorded in the fourth, second and first quarters, respectively

(2) Net income available to common stockholders divided by average realized common equity which excludes accumulated other comprehensive income.

(3) Excludes effect of acquisition related intangibles and associated amortization.



## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

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

Net operating income, excluding merger-related charges, was \$39.5 million in 2003, an increase of 20% from the \$32.8 million earned in 2002. Diluted operating earnings per common share were \$1.68 for 2003, compared with \$1.48 for 2002, an increase of 14%. Operating return on tangible equity for 2003 was 19.24%, compared with 17.88% for 2002. Operating return on assets for 2003 was 1.06% as compared to 1.11% in 2002.

Earnings for 2003 were influenced by acquisitions, strong loan growth and historically low interest rates. Growth in the loan portfolio drove the \$19.2 million or 16% increase in net interest revenue despite a 34 basis point decrease in the net interest margin caused by lower interest rates. The majority of the decrease in the net interest margin decline related to the recent low interest rate environment during 2002 when the net interest margin fell from 4.51% in the first quarter to 4.03% in the fourth quarter. During 2003, the net interest margin stabilized and remained close to the 4.00% level through the year. Despite a slow national economy, United's markets remained vibrant allowing United to enjoy strong business growth. Loan growth during 2003 occurred across all of United's markets with the majority of the growth occurring in the commercial and construction categories.

United chose not to aggressively compete for higher-priced retail time deposits, growth in deposits did not keep pace with the growth in loans. Instead, United increased in the use of wholesale borrowings to fund loan growth. Pricing on those funding sources was more favorable than retail time deposits and the rate characteristics could be more closely matched to the new loans. This allowed United to preserve its interest rate risk profile as slightly asset sensitive. Most of the increase in wholesale borrowings came in the form of Federal Home Loan Bank advances, federal funds purchased and brokered time deposits.

Credit quality remained superior with most credit quality indicators showing improvement over 2002. Nonperforming assets, which includes nonaccrual loans, loans past due more than 90 days and foreclosed real estate, were down \$430,000 from 2002, despite an increase in loans of \$634 million. As a result, nonperforming assets at December 31, 2003 represent .19% of total assets compared with .25% at the end of 2002. Net charge offs as a percentage of average loans were .15% compared with .14% for 2002. Management believes that United's outstanding credit quality is the result of a combination of factors, most important of which is United's community bank structure that consists of community bank presidents and local boards of directors who know their markets and their customers. The majority of United's loans are secured by real estate located within United's geographic footprint. These markets have shown economic strength relative to the national economy, as reflected in a strong housing market and rising real estate values.

Fee revenue increased \$7.5 million or 24% from 2002, driven primarily by acquisitions, an increase in mortgage refinancing activity and an increase in service charges and fees on deposit accounts. The low interest rate environment of 2003 had a very positive impact on the mortgage lending business, driving mortgage loan and related fees to \$10.5 million in 2003 from \$7.8 million in 2002. Refinancing activity peaked in the second and third quarters as long term interest rates dropped to their lowest levels in decades. Service charges and fees continued to increase due to the popularity of new deposit products and services and an increase in the number of deposit accounts and transaction volume. In the fourth quarter, United incurred losses from the prepayment of Federal Home Loan Bank ("FHLB") advances that were offset by gains from the sale of securities. The prepayment of the FHLB advances and the securities sales were both part of a balance sheet management strategy to improve United's interest rate risk profile and increase net interest revenue.

Operating expenses, excluding the \$2.1 million in merger-related charges, were up \$17 million or 18% from 2002 reflecting the additional operating expenses of the two banks and three branches acquired in 2003. Excluding the operating expenses of the acquired banks and branches, operating expenses were up approximately 7% from 2002 primarily due to the increase in core business volume. Aside from the acquisitions, headcount at the end of 2003 was held to an increase of only five staff from December 31, 2002.

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

## Critical Accounting Policies

The accounting and reporting policies of United and its subsidiaries are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. Application of these principles requires management to make estimates or judgments that affect the amounts reported in the financial statements and the accompanying notes. These estimates are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates or judgments. Certain policies inherently have a greater reliance on the use of estimates, and as such have a greater possibility of producing results that could be materially different than originally reported.

Estimates or judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record the valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques.

The most significant accounting policies for United are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Management views critical accounting policies to be those that are highly dependent on subjective or complex judgments, estimates and assumptions, and were changes in those estimates and assumptions could have a significant impact on the financial statements. Management currently views the determination of the allowance for loan losses to be the only critical accounting policy.

The allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. Estimating the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on non-impaired loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheet. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors.

The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation done pursuant to either Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*, or SFAS 114, *Accounting by Creditors for Impairment of a Loan*. The allocated component of the allowance for loan losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific credit allocations are based on regular analyses of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific loans, including estimating the amount and timing of future cash flows and collateral values. The historical loss element is determined using the average of actual losses incurred over the prior two years for each type of loan. The historical loss experience is adjusted for known changes in economic conditions and credit quality trends such as changes in the amount of past due and nonperforming loans. The resulting loss allocation factors are applied to the balance of each type of loan after removing the balance of impaired loans from each category. The loss allocation factors are updated quarterly. The allocated component of the allowance for loan losses also includes consideration of concentrations of credit and changes in portfolio mix.

The unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that accounts for the inherent imprecision in loan loss estimation based on historical loss experience. United has grown through acquisitions, expanded the geographic footprint in which it operates, and changed its portfolio mix in recent years. As a result, historical loss experience data used to establish allocation estimates may not precisely correlate to the current portfolio. Also, loss data representing a complete economic cycle is not available for all sectors. Uncertainty surrounding the strength and timing of

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economic cycles also affects estimates of loss. The historical losses used in developing loss allocation factors may not be representative of actual unrealized losses inherent in the portfolio.

There are many factors affecting the allowance for loan losses; some are quantitative while others require qualitative judgment. Although management believes its process for determining the allowance adequately considers all the potential factors that could potentially result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect earnings or financial position in future periods.

Additional information on United's loan portfolio and allowance for loan losses can be found in the sections of Management's Discussion and Analysis titled "Asset Quality and Risk Elements" and "Nonperforming Assets" and in the sections of Part I, Item 1 titled "Lending Policy" and "Loan Review and Non-performing Assets". Note 1 to the consolidated financial statements includes additional information on United's accounting policies related to the allowance for loan losses.

### **Mergers and Acquisitions**

On November 7, 2001, United completed the acquisition of Peoples Bancorp, Inc. ("West Georgia"), a single-bank holding company located in Carrollton, Georgia. United exchanged 716,252 shares of common stock in exchange for all outstanding shares of West Georgia. The transaction was recorded as a purchase, with the results of operations of West Georgia included in earnings from the date of merger.

On March 31, 2003, United completed the acquisition of First Central Bancshares, Inc. ("First Central"), a bank holding company headquartered in Lenoir City, Tennessee, and its wholly-owned Tennessee bank subsidiary, First Central Bank. On March 31, 2003, First Central Bank had assets of \$195 million, including purchase accounting related intangibles. United exchanged 821,160 shares of its common stock valued at \$20.6 million and approximately \$9 million in cash for all of the outstanding shares. First Central Bank's name was changed to United Community Bank Tennessee.

On May 1, 2003, United completed the acquisition of First Georgia Holding, Inc. ("First Georgia"), a bank holding company headquartered in Brunswick, Georgia, and its wholly-owned Georgia subsidiary, First Georgia Bank. On May 1, 2003, First Georgia Bank had assets of \$303 million, including purchase accounting related intangibles. United exchanged 1,177,298 shares of its common stock valued at \$29.3 million and approximately \$12.8 million in cash for all of the outstanding shares. First Georgia Bank was merged into UCB-Georgia, and operates as a separate community bank.

On October 24, and November 14, 2003, United completed the acquisition of three branches from another financial institution in western North Carolina in Avery, Mitchell and Graham counties. These branches complimented United's existing western North Carolina markets and were a natural extension of its existing franchise. United paid a premium for each branch of between 7% and 11% of average deposits.

### **Merger-Related and Restructuring Charges**

During 2003, United recorded merger-related charges of \$2.1 million for the purchases of First Central, First Georgia and the three branches in western North Carolina. The charges were included in operating expenses.

During the fourth quarter of 2001, United recorded merger-related charges of \$1.6 million in connection with the acquisition and integration of West Georgia. The charges were included in operating expenses for 2001.

The charges are discussed further in Note 3 to the consolidated financial statements. These charges have been excluded from the presentation of operating earnings. Management believes operating earnings provide a helpful measure for assessing financial performance trends.

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The table below presents a reconciliation of United's operating earnings to earnings for the years 2003 and 2001 using accounting principles generally accepted in the United States of America (GAAP). There were no merger-related or restructuring charges in 2002.

**Table 1 - Operating Earnings to GAAP Earnings Reconciliation**

	2003	2001
Merger charges included in expenses:		
Salaries and employee benefits - severance and related costs	\$ 135	\$ 433
Occupancy - disposal of premises and equipment	—	306
Professional fees	885	173
Contract termination costs	566	255
Other merger-related expenses	502	450
Total merger-related charges	2,088	1,617
Income tax effect of above charges	731	533
After-tax effect of merger-related charges	\$ 1,357	\$ 1,084
<b>Net Income Reconciliation</b>		
Net operating income	\$39,475	\$28,315
After-tax effect of merger-related charges	(1,357)	(1,084)
Net income (GAAP)	\$38,118	\$27,231
<b>Basic Earnings Per Share Reconciliation</b>		
Basic operating earnings per share	\$ 1.73	\$ 1.33
Per share effect of merger-related charges	(.06)	(.05)
Basic earnings per share (GAAP)	\$ 1.67	\$ 1.28
<b>Diluted Earnings Per Share Reconciliation</b>		
Diluted operating earnings per share	\$ 1.68	\$ 1.30
Per share effect of merger-related charges	(.06)	(.05)
Diluted earnings per share (GAAP)	\$ 1.62	\$ 1.25

## Results of Operations

The remainder of this financial discussion focuses on operating earnings which exclude merger-related charges. Management believes operating earnings provide a meaningful basis for analysis. For additional information on merger-related and restructuring charges, refer to the section on "Merger-Related and Restructuring Charges" immediately preceding this section and Note 3 to the Consolidated Financial Statements.

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

Net interest revenue (the difference between the interest earned on assets and the interest paid on deposits and other liabilities) is the single largest component of United's revenue. United actively manages this revenue source to provide an optimal level of revenue while balancing interest rate risk, credit and liquidity risks. Net interest revenue totaled \$138.7 million in 2003, an increase of \$19.2 million, or 16% from the level recorded in 2002. Net interest revenue for 2002 increased \$10.4 million or 10% over the 2001 level.

The main driver of this increase was loan growth. Average loans increased \$514 million, or 23%, from last year. This loan growth was primarily driven by core loan growth of approximately \$300 million across existing markets, with the balance of the growth due to the acquisitions of First Central Bank, First Georgia Bank and the branches in western North Carolina (collectively, the "2003 Acquisitions"). Year-end loan balances increased \$634 million from year-end 2002. Of this increase, \$123 million was across markets in north Georgia, \$59 million was in western North Carolina, \$125 million was in the metro Atlanta market, \$105 million was



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in Tennessee related to the acquisition of First Central Bank and \$222 million was in coastal Georgia, primarily related to the acquisition of First Georgia Bank.

Average interest-earning assets for the year increased \$715 million, or 26%, over 2002. The increase reflects the core growth in loans and acquisitions, as well as an increase in the investment securities portfolio. The majority of the increase in interest-earning assets was funded by interest-bearing sources as the increase in average interest-bearing liabilities for the year was approximately \$632 million over 2002.

The banking industry uses two key ratios to measure relative profitability of net interest revenue, which are the interest rate spread and the net interest margin. The interest rate spread measures the difference between the average yield on earning assets and the average rate paid on interest bearing liabilities. The interest rate spread eliminates the impact of non-interest bearing deposits and other non-interest bearing funding sources and gives a direct perspective on the effect of market interest rate movements. The net interest margin is defined as net interest revenue as a percentage of total average earning assets which includes the positive impact of funding a portion of earning assets with customers' non-interest bearing deposits and with stockholders' equity.

For 2003, 2002 and 2001, United's net interest spread was 3.71%, 3.95% and 3.90%, respectively, while the net interest margin was 3.99%, 4.33% and 4.51%, respectively. The decline in the net interest margin reflects the continuation of the historically low rate environment, which reduces the relative value of non-interest bearing sources of funds. Since United's balance sheet had remained asset sensitive during most of 2002, primarily due to growth in floating rate loans, the declining rate environment had a greater effect on interest-earning assets than on interest-bearing liabilities causing compression in the net interest spread and margin. Combined with a flat yield curve, the low rate environment resulted in reinvestment of maturing fixed rate loans and securities at rates lower than the assets they were replacing. At December 31, 2003, United had approximately \$1.4 billion in loans indexed to the daily Prime Rate as published in the Wall Street Journal compared with \$1.0 billion a year ago. The effect of the margin compression was partially offset by improvement in asset mix caused by the increase in loans. United has also actively managed liability pricing and mix to offset the reduction in asset yields. Over the last five quarters, net interest margin has stabilized near the 4.00% level.

The average yield on interest-earning assets for 2003 was 6.02%, compared with 7.10% in 2002. The main driver of this decrease was the average loan yield which was down 96 basis points, as well as the average yield on taxable securities which was down 151 basis points. The shift toward floating rate loans contributed to the decline caused by the lower rate environment. In the fourth quarter of 2002, United began purchasing securities to increase net interest revenue and reduce the interest rate sensitivity of the balance sheet. Although the securities purchases have a positive impact on net interest revenue, they contributed partially to the net interest margin compression that occurred in late 2002 since they were purchased at a yield lower than the existing portfolio.

The average cost of interest-bearing liabilities for 2003 was 2.31%, compared with 3.15% in 2002. The decrease was primarily due to lower rates paid on interest-bearing demand deposits and savings accounts, lower pricing on new and renewed time deposits and lower rates on FHLB advances. United lowered deposit pricing to offset rate reductions initiated by the Federal Reserve in November 2002 and June 2003. Additionally, United continued to experience strong loan growth in 2003, which outpaced the growth of core deposits. Instead of funding with certificates of deposit, United turned to lower cost funding sources such as FHLB advances and brokered time deposits. This resulted in some intentional runoff in non-brokered certificates of deposit over the last few quarters.

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The following table shows the relationship between interest revenue and interest expense and the average balances of interest-earning assets and interest-bearing liabilities for the three years ended December 31, 2003.

**Table 2 — Average Consolidated Balance Sheet and Net Interest Margin Analysis**

For the Years Ended December 31,  
(In thousands, taxable equivalent)

	2003			2002		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
<b>Assets:</b>						
Interest-earning assets:						
Loans, net of unearned income <sup>(1)(2)</sup>	\$2,753,451	\$179,699	6.53%	\$2,239,875	\$167,869	7.49%
Taxable securities <sup>(3)</sup>	605,020	23,944	3.96	394,280	21,578	5.47
Tax-exempt securities <sup>(1)</sup>	62,191	4,639	7.46	70,188	5,276	7.52
Federal funds sold and other interest-earning assets	55,368	1,056	1.91	56,922	1,209	2.12
<b>Total interest-earning assets</b>	<b>3,476,030</b>	<b>209,338</b>	<b>6.02</b>	<b>2,761,265</b>	<b>195,932</b>	<b>7.10</b>
Non-interest-earning assets:						
Allowance for loan losses	(36,065)			(29,414)		
Cash and due from banks	72,497			73,920		
Premises and equipment	79,826			68,033		
Other assets	128,996			85,491		
<b>Total assets</b>	<b>\$3,721,284</b>			<b>\$2,959,295</b>		
<b>Liabilities and Stockholders' Equity:</b>						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Transaction accounts	\$ 784,945	\$ 7,831	1.00	\$ 642,692	\$ 11,515	1.79
Savings deposits	127,125	369	.29	98,501	508	.52
Certificates of deposit	1,463,085	39,752	2.72	1,270,506	45,206	3.56
Total interest-bearing deposits	2,375,155	47,952	2.02	2,011,699	57,229	2.84
Federal Home Loan Bank advances	532,518	15,271	2.87	310,323	13,863	4.47
Long-term debt and other borrowings	146,510	7,377	5.04	99,960	5,265	5.27
Total borrowed funds	679,028	22,648	3.34	410,283	19,128	4.66
<b>Total interest-bearing liabilities</b>	<b>3,054,183</b>	<b>70,600</b>	<b>2.31</b>	<b>2,421,982</b>	<b>76,357</b>	<b>3.15</b>
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	367,932			300,017		
Other liabilities	30,723			29,984		
Total liabilities	3,452,838			2,751,983		
Stockholders' equity	268,446			207,312		
<b>Total liabilities and stockholders' equity</b>	<b>\$3,721,284</b>			<b>\$2,959,295</b>		
Net interest revenue		\$138,738			\$119,575	
Net interest-rate spread			3.71%			3.95%
Net interest margin <sup>(4)</sup>			3.99%			4.33%

[Additional columns below]

[Continued from above table, first column(s) repeated]

	2001		
	Average Balance	Interest	Avg. Rate
<b>Assets:</b>			
Interest-earning assets:			
Loans, net of unearned income <sup>(1)(2)</sup>	\$1,854,968	\$175,178	9.44%

Taxable securities <sup>(3)</sup>	412,506	27,095	6.57
Tax-exempt securities <sup>(1)</sup>	76,826	5,357	6.97
Federal funds sold and other interest-earning assets	74,780	2,406	3.22
<b>Total interest-earning assets</b>	<b>2,419,080</b>	<b>210,036</b>	<b>8.68</b>
Non-interest-earning assets:			
Allowance for loan losses	(26,231)		
Cash and due from banks	57,675		
Premises and equipment	58,426		
Other assets	76,340		
<b>Total assets</b>	<b>\$2,585,290</b>		
<b>Liabilities and Stockholders' Equity:</b>			
Interest-bearing liabilities:			
Interest-bearing deposits:			
Transaction accounts	\$ 466,375	\$ 12,628	2.71
Savings deposits	91,412	1,392	1.52
Certificates of deposit	1,180,463	65,270	5.53
Total interest-bearing deposits	1,738,250	79,290	4.56
Federal Home Loan Bank advances	275,758	15,559	5.64
Long-term debt and other borrowings	96,755	6,025	6.23
Total borrowed funds	372,513	21,584	5.79
<b>Total interest-bearing liabilities</b>	<b>2,110,763</b>	<b>100,874</b>	<b>4.78</b>
Non-interest-bearing liabilities:			
Non-interest-bearing deposits	271,855		
Other liabilities	26,528		
Total liabilities	2,409,146		
Stockholders' equity	176,144		
<b>Total liabilities and stockholders' equity</b>	<b>\$2,585,290</b>		
Net interest revenue		\$109,162	
Net interest-rate spread			3.90%
Net interest margin <sup>(4)</sup>			4.51%

(1) Interest revenue on tax-exempt securities and loans has been increased to reflect comparable interest on taxable securities and loans. The rate used was 39%, reflecting the statutory federal rate and the federal tax adjusted state tax rate.

(2) Included in the average balance of loans outstanding are loans where the accrual of interest has been discontinued.

(3) Securities available for sale are shown at amortized cost. Pretax unrealized gains of \$11.5 million in 2003, \$10.4 million in 2002, and \$7.8 million in 2001 are included in other assets for purposes of this presentation.

(4) Net interest margin is taxable equivalent net-interest revenue divided by average interest-earning assets.

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The following table shows the relative impact on net interest revenue of changes in the average outstanding balances (volume) of earning assets and interest bearing liabilities and the rates earned and paid by United on such assets and liabilities.

**Table 3 - Change in Interest Revenue and Interest Expense**

(in thousands, taxable equivalent)

	2003 Compared to 2002 Increase (decrease) due to changes in			2002 Compared to 2001 Increase (decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest-earning assets:</b>						
Loans	\$35,310	\$(23,480)	\$11,830	\$32,588	\$(39,897)	\$ (7,309)
Taxable securities	9,430	(7,064)	2,366	(1,155)	(4,362)	(5,517)
Tax-exempt securities	(597)	(40)	(637)	(152)	71	(81)
Federal funds sold and other interest revenue	(32)	(121)	(153)	(494)	(703)	(1,197)
<b>Total interest-earning assets</b>	<b>44,111</b>	<b>(30,705)</b>	<b>13,406</b>	<b>30,787</b>	<b>(44,891)</b>	<b>(14,104)</b>
<b>Interest-bearing liabilities:</b>						
Transaction accounts	2,172	(5,856)	(3,684)	3,922	(5,035)	(1,113)
Savings deposits	122	(261)	(139)	100	(984)	(884)
Certificates of deposit	6,219	(11,673)	(5,454)	4,666	(24,730)	(20,064)
<b>Total interest-bearing deposits</b>	<b>8,513</b>	<b>(17,790)</b>	<b>(9,277)</b>	<b>8,688</b>	<b>(30,749)</b>	<b>(22,061)</b>
FHLB advances	7,557	(6,149)	1,408	1,798	(3,494)	(1,696)
Long-term debt and other borrowings	2,353	(241)	2,112	194	(954)	(760)
<b>Total borrowed funds</b>	<b>9,910</b>	<b>(6,390)</b>	<b>3,520</b>	<b>1,992</b>	<b>(4,448)</b>	<b>(2,456)</b>
<b>Total interest-bearing liabilities</b>	<b>18,423</b>	<b>(24,180)</b>	<b>(5,757)</b>	<b>10,680</b>	<b>(35,197)</b>	<b>(24,517)</b>
<b>Increase (decrease) in net interest revenue</b>	<b>\$25,688</b>	<b>\$ (6,525)</b>	<b>\$19,163</b>	<b>\$20,107</b>	<b>\$ (9,694)</b>	<b>\$ 10,413</b>

Any variance attributable jointly to volume and rate changes is allocated to the volume and rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

**Provision for Loan Losses**

The provision for loan losses was \$6.3 million in 2003, compared with \$6.9 million in 2002, and \$6.0 million in 2001. The provision as a percentage of average outstanding loans for 2003, 2002 and 2001 was .23%, .31% and .32%, respectively. The ratio of net loan charge-offs to average outstanding loans for 2003 was .15%, compared with .14% for 2002, and .25% for 2001. The provision for loan losses for each year is the amount management believes is necessary to position the allowance for loan losses at an amount adequate to absorb losses inherent in the loan portfolio as of the balance sheet date.

The provision for loan losses is based on management's evaluation of inherent risks in the loan portfolio and the corresponding analysis of the allowance for loan losses. Additional discussions on loan quality and the allowance for loan losses are included in the Asset Quality section of this report and Note 1 to the Consolidated Financial Statements.

**Fee Revenue**

Total fee revenue for 2003 was \$38.2 million, compared with \$30.7 million in 2002 and \$25.3 million in 2001. Fee revenue was approximately 22% of total revenue for 2003, compared with 21% for 2002 and 20% for 2001. The following table presents the components of fee revenue for 2003, 2002 and 2001.

**Table 4 - Fee Revenue**

For the Years Ended December 31,  
(in thousands)

	2003	2002	2001	Change 2003-2002
Service charges and fees	\$18,288	\$13,465	\$ 9,913	36%
Mortgage loan and related fees	10,515	7,751	6,179	36
Consulting fees	4,399	4,612	4,658	(5)
Brokerage fees	1,921	1,875	1,286	2
Securities gains, net	497	637	214	
Other	2,564	2,394	3,017	7
<b>Total fee revenue</b>	<b>\$38,184</b>	<b>\$30,734</b>	<b>\$25,267</b>	<b>24</b>

Comparability between current and prior years is affected by the 2003 Acquisitions. Earnings for the 2003 Acquisitions are included in consolidated earnings after their respective acquisition dates. The 2003 Acquisitions contributed approximately \$4.0 million in fee revenue, mostly service charges and fees and mortgage loan and related fees. Excluding the contributions of recent mergers, fee revenue for the year grew approximately 11% compared to 2002.

Total deposit service charges and fees for 2003 were \$18.3 million compared with \$13.5 million in 2002. The increase in service charges and fees was primarily due to the 2003 Acquisitions and new products and services introduced in 2002, as well as an increase in the number of accounts and transaction activity and the growth in ATM fees. Excluding acquisitions, the growth in service charges and fees was approximately 16%

Mortgage loan and related fees for 2003 were \$10.5 million, up 36% over the amount in 2002. Mortgage loan originations were up \$63 million over 2002, as mortgage rates fell from their already low levels. Substantially all of the mortgages were subsequently sold into the secondary market, including the right to service these loans. United does not service loans for others.

Other fee revenue for 2003 and 2002 included losses of \$787 thousand and \$552 thousand, respectively, for the early prepayment of fixed rate FHLB advances. The prepayment penalties, which were recorded as a reduction of fee revenue, were offset substantially by securities gains that were taken as part of the ongoing balance sheet management activities. The fixed rate advances were replaced with brokered deposits and other primarily floating rate sources of wholesale funds that more closely matched the rate characteristics of the mostly prime-based loans that were made during the year.

**Operating Expense**

Total operating expenses, excluding merger-related charges, were \$107.9 million in 2003 as compared with \$91.1 million in 2002 and \$83.9 million in 2001. Operating expenses for 2003 and 2001 exclude \$2.1 million and \$1.6 million, respectively, of merger-related charges. These charges primarily consisted of professional fees, contract termination costs and systems conversion costs that are described in more detail in the section of Management's Discussion and Analysis titled "Merger-Related and Restructuring Charges". Operating expenses for the 2003 Acquisitions accounted for \$10 million of the increase over 2002, leaving the underlying core expense growth rate (excluding acquisitions) at 9%. The following table presents the components of operating expenses for the three years ended December 31, 2003.

**Table 5 - Operating Expenses**

For the Years Ended December 31,  
(in thousands)

	2003	2002	2001	Change 2003-2002
Salaries and employee benefits	\$ 68,044	\$57,735	\$49,982	18%
Occupancy	8,783	8,261	8,011	6
Communications and equipment	8,601	6,555	5,986	31
Postage, printing and supplies	4,439	3,731	4,452	19
Professional fees	3,910	3,368	3,406	16
Advertising and public relations	3,068	2,994	2,764	2
Amortization of intangibles	1,065	340	763	
Other	9,990	8,140	8,542	23
<b>Total</b>	<b>107,900</b>	<b>91,124</b>	<b>83,906</b>	<b>18</b>
Merger-related charges	2,088	—	1,617	
<b>Total operating expenses</b>	<b>\$109,988</b>	<b>\$91,124</b>	<b>\$85,523</b>	<b>21</b>

Salaries and benefits for 2003 totaled \$68 million, up \$10.3 million, or 18% over 2002. The 2003 Acquisitions accounted for approximately \$6 million of the increase, with remainder due to normal merit increases and higher incentive costs related primarily to the growth in mortgage loan fee revenue.

Communications and equipment expense of \$8.6 million were up \$2 million, or 31%, over 2002. Excluding mergers, the costs increased 21%, mainly due to higher costs for investments in software, telecommunications and other technology equipment over last year.

Postage, printing and supplies expense of \$4.4 million was up 19% compared to 2002. This increase was mostly due to the 2003 Acquisitions.

Professional fees of \$3.9 million were up 16%, over 2002. The increase was mostly due to the higher level of business activity during 2003.

The \$.7 million increase in intangible costs reflects the increase in amortization of core deposit intangibles that were recorded in connection with the 2003 acquisitions. United recorded \$11.4 million in core deposit intangibles in 2003 associated with the 2003 Acquisitions. Those core deposit intangibles are being amortized straight line over ten years.

Other expenses for 2003 of \$10 million were up \$1.9 million, or 23% compared to 2002. Excluding the impact of the 2003 Acquisitions, other expenses increased approximately \$.6 million, or 8%, due to core business growth.

The efficiency ratio measures total operating expenses as a percentage of total revenue and excludes the provision for loan losses, net securities gains (losses), and merger-related charges. The FHLB prepayment losses taken during the fourth quarters of 2003 and 2002 are also excluded from the efficiency ratio calculation since they were part of the same balance sheet restructuring activities that resulted in the securities gains. United's efficiency ratio for 2003 was 60.89% as compared with 60.66% and 62.52% for 2002 and 2001, respectively. The increase in the efficiency ratio from 2002 is primarily due to the margin compression that began in the latter half of 2002 that slowed the growth in net interest revenue.

### **Income Taxes**

Income tax expense, including tax benefits relating to merger and restructuring charges, was \$20.4 million in 2003 compared with \$17.1 million in 2002 and \$13.5 million in 2001. The effective tax rates (as a percentage of pre-tax net income) for 2003, 2002 and 2001 were 34.8%, 34.3% and 33.2%, respectively. These effective tax rates are lower than the statutory tax rate primarily due to interest revenue on certain investment securities and loans that are exempt from income taxes and tax credits received on affordable housing investments. The effective tax rate has increased over the three year period as tax exempt interest income on securities and loans has declined as a proportion of pre-tax earnings. Additional information regarding income taxes can be found in Note 13 to the Consolidated Financial Statements.

### **Fourth Quarter Discussion**

Taxable equivalent net interest revenue for the fourth quarter of 2003 rose \$7.2 million, or 24%, to \$36.8 million from the same period a year ago. The 2003 Acquisitions contributed approximately \$4.0 million of this increase, leaving the core growth rate at approximately 12%. Taxable equivalent net interest margin for the fourth quarter was 3.96% versus 4.03% a year ago.

The 2003 fourth quarter provision for loan losses was \$1.8 million, unchanged from a year earlier. Non-performing assets totaled \$7.6 million, down \$4 million from a year ago, while loans outstanding increased \$634 million. Non-performing assets as a percentage of total assets were .19% at December 31, 2003, compared with .25% at December 31, 2002.

Fee revenue of \$9.1 million for the fourth quarter of 2003 increased \$.3 million, or 3%, from \$8.8 million a year ago. Mortgage loan and related fees were \$1.8 million and down \$.9 million from a year ago, due to the lower level of mortgage refinancing activity caused by a rise in long-term interest rates in the latter half of 2003. Service charges and fees on deposit accounts were \$5.0 million, up \$1.4 million due to the recent acquisitions, increasing popularity of new products and services introduced last year, and growth in transactions and new accounts. Fee revenue was reduced by net charges of \$150,000, representing \$787,000 in charges for the early prepayment of fixed rate FHLB advances that were partially offset by taking securities gains of \$622,000. Both transactions were part of the same overall balance sheet management strategy. A similar strategy and restructuring took place in the fourth quarter of 2002.

Operating expenses, excluding merger-related charges, were \$27.6 million, up \$4.6 million, or 20%, from the fourth quarter of 2002. Included in the fourth quarter of 2003 were normal operating expenses for the 2003 Acquisitions, which totaled approximately \$3.9 million, leaving the underlying core expense growth rate under 4%. Salaries and employees benefits of \$17.4 million increased \$2.4 million, or 16%, with approximately \$2.0 million of this increase resulting from the 2003 Acquisitions. The balance of the increase was due to normal merit increases for staff that was partially offset by lower incentive compensation associated with the slowdown in mortgage refinancing activities. Communications and equipment expenses of \$2.3 million increased \$.4 million, or 24%, primarily resulting from the 2003 Acquisitions. Excluding the 2003 Acquisitions, communications and equipment expenses increased approximately 9%, due to depreciation and amortization costs for software, telecommunications, and technology equipment added over the last twelve months. Increases in all other operating expense categories were primarily due to the acquisitions and business growth.

### **Balance Sheet Review**

Total assets at December 31, 2003 were \$4.1 billion, an increase of \$857 million, or 27%, from December 31, 2002. The 2003 Acquisitions added approximately \$510 million to total assets. On an average basis, total assets increased \$762 million, or 26%, from 2002 to 2003. Average interest earning assets for 2003 were \$3.5 billion, compared with \$2.8 billion for 2002, an increase of 26%.

## Loans

Total loans averaged \$2.8 billion in 2003, compared with \$2.2 billion in 2002, an increase of 23%. At December 31, 2003, total loans were \$3.0 billion, an increase of \$634 million, or 27%, from December 31, 2002. The 2003 Acquisitions added approximately \$320 million in balances to the loan portfolio. Over the past year, United has experienced strong loan growth in all markets, with particular strength in loans secured by real estate, both residential and non-residential. Approximately \$227 million of the increase from 2002 occurred in construction and land development loans which is comprised of approximately 80% residential and 20% commercial, including \$65 million from the east Tennessee and coastal Georgia acquisitions. Growth was also strong in residential real estate loans and commercial loans secured by real estate which grew \$189 million and \$164 million, respectively, from December 31, 2002. Residential real estate loans of \$136 million and commercial loans secured by real estate of \$68 million were added through the acquisitions of First Central Bank and First Georgia Bank. The following table presents a summary of the loan portfolio by category over that period.

**Table 6 - Loans Outstanding**

As of December 31,  
(in thousands)

	2003	2002	2001	2000	1999
Commercial (commercial and industrial)	\$ 190,189	\$ 140,515	\$ 146,754	\$ 177,009	\$ 151,112
Commercial (secured by real estate)	776,591	612,926	541,184	476,797	411,575
<b>Total commercial</b>	<b>966,780</b>	<b>753,441</b>	<b>687,938</b>	<b>653,806</b>	<b>562,687</b>
Construction (secured by real estate)	927,087	700,007	451,713	256,886	211,034
Residential mortgage	981,961	793,284	722,588	717,828	623,215
Installment	140,169	135,066	145,751	163,535	167,212
<b>Total loans</b>	<b>\$3,015,997</b>	<b>\$2,381,798</b>	<b>\$2,007,990</b>	<b>\$1,792,055</b>	<b>\$1,564,148</b>
As a percentage of total loans:					
Commercial (commercial and industrial)	6%	6%	7%	10%	10%
Commercial (secured by real estate)	26	26	27	27	26
<b>Total commercial</b>	<b>32</b>	<b>32</b>	<b>34</b>	<b>37</b>	<b>36</b>
Construction (secured by real estate)	31	29	23	14	13
Residential mortgage	32	33	36	40	40
Installment	5	6	7	9	11
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



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Substantially all loans are to customers located in Georgia, North Carolina and Tennessee, the immediate market areas of United and approximately 98% of the loans are secured by real estate and other hard assets (including customers who have a seasonal residence in United's market areas).

As of December 31, 2003, United's 25 largest credit relationships consisted of loans and loan commitments ranging from \$6.9 million to \$14.6 million, with an aggregate total credit exposure of \$284.9 million, including \$46 million in unfunded commitments, and \$238.9 million in balances outstanding. All of these customers were underwritten in accordance with United's credit quality standards and structured in order to minimize potential exposure to loss.

The following table sets forth the maturity distribution of commercial and construction loans, including the interest rate sensitivity for loans maturing greater than one year, as of December 31, 2003. United's loan policy does not permit automatic roll-over of matured loans.

**Table 7 - Loan Portfolio Maturity**

As of December 31, 2003  
(in thousands)

	Maturity			Total	Rate Structure for Loans Maturing Over One Year	
	One Year or Less	One through Five Years	Over Five Years		Fixed Rate	Floating Rate
Commercial (commercial and industrial)	\$ 97,020	\$ 79,475	\$13,694	\$ 190,189	\$ 87,014	\$ 6,155
Construction (secured by real estate)	649,642	204,029	73,416	927,087	239,881	37,564
Total	\$746,662	\$283,504	\$87,110	\$1,117,276	\$326,895	\$43,719

#### **Asset Quality and Risk Elements**

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

The provision for loan losses is based on management's judgment of the amount necessary to maintain the allowance at a level adequate to absorb probable losses. The amount each year is dependent upon many factors including loan growth, net charge-offs, changes in the composition of the loan portfolio, delinquencies and other credit quality trends, management's assessment of loan portfolio quality, the value of collateral, and economic factors and trends. The evaluation of these factors is performed by United's credit administration through analysis of the adequacy of the allowance for loan losses.

Reviews of non-performing, past due loans and larger credits, designed to identify potential charges to the allowance for loan losses, as well as determine the adequacy of the allowance, are conducted on a regular basis during the year. These reviews are performed by the responsible lending officers, a separate loan review function or the special assets department with consideration of such factors as the customer's financial position, prevailing and anticipated economic conditions and other pertinent factors.

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

**Table 8 - Allowance for Loan Losses**

Years Ended December 31,  
(in thousands)

	2003	2002	2001	2000	1999
Balance beginning of period	\$ 30,914	\$ 27,124	\$ 24,698	\$ 20,043	\$ 14,402
Provision for loan losses	6,300	6,900	6,000	7,631	5,966
Allowance for loan losses acquired from subsidiaries at merger date	5,538	—	1,004	—	1,822
Charge-offs:					
Commercial (commercial and industrial)	1,183	493	1,826	676	362
Commercial (secured by real estate)	538	820	663	13	—
Construction (secured by real estate)	369	110	175	—	4
Residential mortgage	1,367	1,265	752	554	782
Installment	1,812	1,615	2,107	2,494	2,038
Total loans charged-off	5,269	4,303	5,523	3,737	3,186
Recoveries:					
Commercial (commercial and industrial)	259	290	129	167	180
Commercial (secured by real estate)	92	51	56	—	—
Construction (secured by real estate)	36	30	32	—	5
Residential mortgage	283	196	166	59	331
Installment	502	626	562	535	523
Total recoveries	1,172	1,193	945	761	1,039
Net charge-offs	4,097	3,110	4,578	2,976	2,147
Balance end of period	\$ 38,655	\$ 30,914	\$ 27,124	\$ 24,698	\$ 20,043
Total loans:					
At year-end	\$3,015,997	\$2,381,798	\$2,007,990	\$1,792,055	\$1,564,148
Average	2,753,451	2,239,875	1,854,968	1,683,403	1,391,858
Allowance as a percentage of year- end loans	1.28%	1.30%	1.35%	1.38%	1.28%
As a percentage of average loans:					
Net charge-offs	.15%	.14%	.25%	.18%	.15%
Provision for loan losses	.23%	.31%	.32%	.45%	.43%
Allowance as a percentage of non-performing loans	583%	459%	315%	444%	700%

Management believes that the allowance for loan losses at December 31, 2003 is adequate to absorb losses inherent in the loan portfolio. This assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination of the Banks, may require additional charges to the provision for loan losses in future periods if the results of their review warrant such additions.

**Non-performing Assets**

Non-performing loans, which include non-accrual loans and accruing loans past due over 90 days, totaled \$6.6 million at year-end 2003, compared with \$6.7 million at December 31, 2002. There is no concentration of non-performing loans attributable to any specific industry. At December 31, 2003, the ratio of non-performing loans to total loans was .22%, compared with .28% at year-end 2002. Non-performing assets, which include non-performing loans and foreclosed real estate, totaled \$7.6 million at December 31, 2003, compared with \$8 million at year-end 2002.

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

There were no commitments to lend additional funds to customers whose loans were on non-accrual status at December 31, 2003. The table below summarizes non-performing assets at year-end for the last five years.

**Table 9 - Non-Performing Assets**

As of December 31,  
(in thousands)

	2003	2002	2001	2000	1999
Non-accrual loans	\$6,627	\$6,732	\$8,610	\$4,605	\$2,106
Loans past due 90 days or more and still accruing	—	1	—	956	758
<b>Total non-performing loans</b>	<b>6,627</b>	<b>6,733</b>	<b>8,610</b>	<b>5,561</b>	<b>2,864</b>
Other real estate owned	962	1,286	1,060	1,155	788
<b>Total non-performing assets</b>	<b>\$7,589</b>	<b>\$8,019</b>	<b>\$9,670</b>	<b>\$6,716</b>	<b>\$3,652</b>
Total non-performing loans as a percentage of total loans	.22%	.28%	.43%	.31%	.18%
Total non-performing assets as a percentage of total assets	.19	.25	.35	.27	.15

At December 31, 2003 and 2002, there were \$536,000 and \$2.0 million, respectively, of loans classified as impaired under the definition outlined in SFAS No. 114. Specific reserves allocated to these impaired loans totaled \$118,000 at December 31, 2003, and \$591,000 at December 31, 2002. The average recorded investment in impaired loans for the years ended December 31, 2003 and 2002 was \$1.8 million and \$3.7 million, respectively. United's policy is to recognize interest revenue on a cash basis for loans classified as impaired under SFAS No. 114.

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

Total securities available for sale increased \$101 million from the end of 2002. Half of the increase from 2002 was due to the additional securities added by the 2003 Acquisitions. Late in 2002, United began purchasing securities as part of a program to help stabilize the interest rate sensitivity of the balance sheet and to increase net interest revenue. This program continued into the first quarter accounting for remaining increase in securities. At December 31, 2003, the average duration of the investment portfolio was 3.18 years compared with 2.55 years at December 31, 2002. The following table shows the carrying value of United's securities as of December 31, 2003 and 2002.

**Table 10 - Carrying Value of Investment Securities**

As of December 31,  
(in thousands)

	2003	2002
Securities available for sale:		
U.S. Government agencies	\$366,479	\$216,517
State and political subdivisions	59,347	72,499
Mortgage-backed securities	229,901	263,740
Other	4,164	6,634
Total securities available for sale	<u>\$659,891</u>	<u>\$559,390</u>

The investment securities portfolio consists of U.S. Government and agency securities, municipal securities, and U.S. Government sponsored agency mortgage-backed securities. A mortgage-backed security relies on the underlying mortgage pools of loans to provide a cash flow of principal and interest. The actual maturities of these securities will differ from the contractual maturities because the loans underlying the security may prepay without prepayment penalties. Decreases in long-term interest rates will generally cause an acceleration of prepayment levels. In a declining interest rate environment, proceeds may not be able to be reinvested in assets that have comparable yields.

At December 31, 2003, United had 35% of its total investment securities portfolio in mortgage backed pass-through securities, compared with 47% at December 31, 2002. United did not have securities of any issuer in excess of 10% of equity at year-end 2003 or 2002, excluding U.S. Government issues. Other mortgage-backed securities, including collateralized mortgage obligations, represented 8% of the total securities portfolio at December 31, 2003, compared with 6% at year-end 2002. See Note 5 to the Consolidated Financial Statements for further discussion of investment portfolio and related fair value and maturity information.

**Deposits**

Total average deposits for 2003 were \$2.7 billion, an increase of \$431 million, or 19% from 2002. Average non-interest bearing demand deposit accounts increased \$68 million, or 23%, and average interest bearing transaction accounts increased \$142 million, or 22%, from 2002. Average time deposits for 2003 were \$1.5 billion, up from \$1.3 billion in 2002.

Time deposits of \$100,000 and greater totaled \$406 million at December 31, 2003, compared with \$370 million at year-end 2002. United utilizes "brokered" time deposits, issued in certificates of less than \$100,000, as an alternative source of cost-effective funding. Average brokered time deposits outstanding in 2003, 2002 and 2001 were \$275 million, \$145 million and \$59 million, respectively. The average rate paid on brokered time deposits in 2003, 2002 and 2001 was 2.20%, 2.70% and 6.11%, respectively. Total interest expense on time deposits of \$100,000 and greater during 2003 was approximately \$11 million.

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The following table sets forth the scheduled maturities of time deposits of \$100,000 and greater and brokered time deposits at December 31, 2003.

**Table 11 - Maturities of Time Deposits of \$100,000 and Greater and Brokered Deposits**

As of December 31, 2003  
(in thousands)

<b>\$100,000 and greater:</b>	
Three months or less	\$ 106,029
Three to six months	92,773
Six to twelve months	84,477
Over one year	122,869
Total	<u>\$406,148</u>
<b>Brokered deposits</b>	
Three months or less	\$ 56,247
Three to six months	27,937
Six to twelve months	71,258
Over one year	81,434
Total	<u>\$236,876</u>

### **Wholesale Funding**

At December 31, 2003, UCB-Georgia and UCB-North Carolina were shareholders in FHLB of Atlanta. Through this affiliation, secured advances totaling \$635 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. The FHLB advances outstanding at December 31, 2003 had both fixed and floating interest rates ranging from .52% to 7.81%. Approximately 44% of the FHLB advances mature prior to December 31, 2004. Additional information regarding FHLB advances, including scheduled maturities, is provided in Note 10 to the consolidated financial statements.

### **Liquidity Management**

The primary objective of liquidity management is to ensure that sufficient funding is available, at reasonable cost, to meet ongoing operational cash needs. While the desired level of liquidity will vary depending upon a number of factors, it is the primary goal of United to maintain a sufficient level of liquidity in reasonably foreseeable economic environments. Liquidity is defined as the ability of a bank to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining United's ability to meet the daily cash flow requirements of the Banks' customers, both depositors and borrowers.

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

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and the maturities and sales of securities. Mortgage loans held for sale totaled \$10.8 million at December 31, 2003, and typically turn over every 45 days as closed loans are sold to investors in the secondary market. Construction and commercial loans that mature in one year or less amounted to \$747 million, or 25%, of the loan portfolio at December 31, 2003.

The liability section of the balance sheet provides liquidity through depositors' interest bearing and non-interest bearing accounts. Federal funds purchased, FHLB advances and securities sold under agreements to repurchase are additional sources of

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liquidity and represent United's incremental borrowing capacity. These sources of liquidity are short-term in nature and are used as necessary to fund asset growth and meet other short-term liquidity needs.

United has available lines of credit at its holding company with other financial institutions totaling \$85 million. At December 31, 2003, \$45 million was outstanding on those lines, and United had sufficient qualifying collateral to increase FHLB advances by \$121 million. United's internal policy limits brokered deposits to 25% of total deposits, excluding the brokered deposits. At December 31, 2003, United had the capacity to increase brokered deposits by \$418 million and still remain within this limit. In addition to these wholesale sources, United has the ability to attract retail deposits at any time by competing more aggressively on pricing.

The following table shows United's contractual obligations and other commitments as of December 31, 2003.

**Table 12 - Contractual Obligations and Other Commitments**

As of December 31, 2003  
(in thousands)

	Maturity By Years				
	Total	1 or Less	1 to 3	3 to 5	Over 5
<b>Contractual Cash Obligations</b>					
FHLB Advances	\$635,420	\$281,405	\$160,500	\$82,249	\$111,266
Long-term debt and other borrowings	152,596	46,996	3,100	—	102,500
Operating leases	7,010	1,638	2,734	1,897	741
Total contractual cash obligations	\$795,026	\$330,039	\$166,334	\$84,146	\$214,507
<b>Other Commitments</b>					
Lines of credit	\$527,988	\$315,672	\$105,673	\$4,424	\$102,219
Commercial letters of credit	12,100	9,955	2,130	15	—
Total other commitments	\$540,088	\$325,627	\$107,803	\$4,439	\$102,219

As disclosed in United's consolidated statements of cash flows, net cash provided by operating activities was \$74 million during 2003. The major sources of cash provided by operating activities were net income and a reduction in mortgages held for sale, partially offset by changes in other assets and other liabilities. Net cash used in investing activities of \$318 million consisted primarily of the net increase in loans of \$319 million, a net increase in securities of \$69 million and cash received from acquisitions of \$83 million. Net cash provided by financing activities provided the remainder of funding sources for 2003. The \$298 million of net cash provided by financing activities consisted primarily of a net increase in FHLB advances of \$139 million, an increase of \$82 million in federal funds purchased and repurchase agreements, a \$41 million increase in notes payable and other borrowings, and proceeds from issuance of subordinated debt of \$35 million. In the opinion of management, United's liquidity position at December 31, 2003, is sufficient to meet its expected cash flow requirements.

#### Off-Balance Sheet Arrangements

United is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of customers. These financial instruments include commitments to extend credit, letters of credit and financial guarantees.

A commitment to extend credit is an agreement 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. Letters of credit and financial guarantees are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as extending loan facilities to customers. Those commitments are primarily issued to local businesses.

The exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit, letters of credit and financial guarantees is represented by the contractual amount of these instruments. United uses the same credit underwriting procedures for making commitments, letters of credit and financial guarantees as for on-balance sheet instruments. United evaluates each customer's creditworthiness on a case-by-case basis and the amount of the collateral, if deemed necessary, is

based on the credit evaluation. Collateral held varies, but may include unimproved and improved real estate, certificates of deposit, personal property or other acceptable collateral.

All of these instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The total amounts of these instruments does not necessarily represent future cash requirements because a significant portion of these instruments often expire without being used.

United is not involved in off-balance sheet contractual relationships, other than those disclosed in this report, that could result in liquidity needs or other commitments, or that could significantly impact earnings. See Notes 2 and 16 to the consolidated financial statements for additional information on off-balance sheet arrangements.

### Capital Resources and Dividends

Stockholders' equity at December 31, 2003 was \$299.4 million, an increase of \$77.8 million, or 35%, from December 31, 2002. Accumulated other comprehensive income, which includes unrealized gains and losses on securities available for sale and the unrealized gains and losses on derivatives qualifying as cash flow hedges, was not included in the calculation of regulatory capital adequacy ratios. Excluding the decrease in the accumulated other comprehensive income, stockholders' equity increased \$81.7 million, or 39%, with the 2003 acquisitions adding \$50 million of that amount. Dividends of \$6.9 million, or \$.30 per share, were declared on common stock in 2003, an increase of 20% per share from the amount declared in 2002. The dividend payout ratios based on net income for 2003 and 2002 were 18.0% and 16.3%, respectively; and, excluding merger-related charges, were 17.3% and 16.3%, respectively. United has historically retained earnings in order to provide capital for continued growth and expansion. However, in recognition that cash dividends are an important component of shareholder return, management has increased the payout ratio from 12 to 17% over the past five years and has targeted a long-term payout ratio between 18 and 20% when earnings and capital levels permit.

In 1996, United issued \$3.5 million of convertible subordinated debentures due December 31, 2006 (the "2006 Debentures"). The 2006 Debentures bear interest at the rate of 25 basis points over the prime rate, as quoted in the *Wall Street Journal*, payable quarterly. The 2006 Debentures may be redeemed, in whole or in part at the option of United with 60 days notice, at a redemption price equal to 100% of the principal amount of the debentures to be redeemed plus accrued interest. The holders of the 2006 Debentures have the right, exercisable at any time up to December 31, 2006, to convert such debentures at the principal amount thereof into shares of Common Stock of United at the conversion price of \$12.50 per share.

In 2002, United issued through a private placement, \$31.5 million in 6.75% subordinated notes due November 26, 2012. Proceeds from the issuance were used for general business purposes. The notes qualify as Tier II capital under Risk Based Capital Guidelines.

In 2003, United issued \$35 million in subordinated step-up notes due September 30, 2015. The subordinated notes qualify as Tier II capital under risk-based capital guidelines. The notes bear interest at a fixed rate of 6.25% through September 30, 2010, and at a rate of 7.50% thereafter until maturity or earlier redemption. The notes are callable at par on September 30, 2010, and September 30 of each year thereafter until maturity. The proceeds were used for general corporate purposes.

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.

Tier I capital consists of stockholders' equity, excluding accumulated other comprehensive income and intangible assets (goodwill and deposit-based intangibles), plus qualifying capital securities. United's Tier I capital totaled \$259.1 million at December 31, 2003. Tier II capital components include supplemental capital 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 \$366.7 million at December 31, 2003. The ratios, as calculated under the guidelines, were 8.41% and 11.91% for Tier I and Total Risk-based Capital, respectively, at December 31, 2003.

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A minimum leverage ratio is required in addition to the risk-based capital standards and is defined as Tier I capital divided by average assets reduced by the amount of goodwill and deposit-based intangibles. A minimum leverage ratio of 3% is required for the highest-rated bank holding companies which are not undertaking significant expansion programs, but the Federal Reserve Board requires a bank holding company to maintain a leverage ratio greater than 3% if it is experiencing or anticipating significant growth or is operating with less diversified risks in the opinion of the Federal Reserve Board. The Federal Reserve Board uses the leverage and risk-based capital ratios to assess capital adequacy of banks and bank holding companies. United's leverage ratios at December 31, 2003 and 2002 were 6.66% and 7.47%, respectively.

United monitors these capital ratios to ensure that United and the Banks remain within regulatory guidelines. Further information regarding the actual and required capital ratios of United and the Banks is provided in Note 15 to the consolidated financial statements.

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

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

United's management believes the impact of inflation on financial results depends on United's ability to react to changes in interest rates and, by such reaction, reduce the inflationary impact on performance. United has an asset/liability management program to monitor and 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.

### **Outlook**

Management expects internally generated loan growth to continue between 10 to 14% through 2004. Earnings per share are expected to grow at a rate of 12% to 15% based on a stable net interest margin and anticipated loan growth of 10% to 14%. We expect our net interest margin to remain near the 4% level.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Interest Rate Sensitivity Management**

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

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

One of the tools management utilizes to estimate the sensitivity of net interest revenue to changes in interest rates is an interest rate simulation model. Such estimates are based upon a number of assumptions for each scenario, including the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments. The simulation model measures the potential change in net interest revenue over a twelve-month period under six interest rate scenarios. The first scenario assumes rates remain flat over the next twelve months and is the scenario that all others are compared to in order to measure the change in net interest revenue. The second scenario is a most likely scenario that projects the most likely change in rates over the next twelve months based on the slope of the yield curve. United models ramp scenarios that assume gradual increases and decreases of 200 basis points each over the next twelve months. United has a policy for net interest revenue simulation based on rate movements of up 200 basis points ramp over twelve months and down 200 basis points ramp over twelve months from the flat rate scenario. The policy limits net interest revenue to a 10% decrease in either scenario. At both December 31, 2003 and 2002, United's simulation model indicated that



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a 200 basis point increase in rates over the next twelve months would cause an approximate 1% increase in net interest revenue and a 200 basis point decrease in rates over the next twelve months would cause an approximate 3% decrease in net interest revenue.

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

The following table shows interest sensitivity gaps for these different intervals as of December 31, 2003.

**Table 13 - Interest Rate Gap Sensitivity**

As of December 31, 2003

(in thousands)

	Immediate	1 to 3	Interest Sensitivity Periods in Months		Over 60	Total
			4 to 12	13 to 60		
<b>Interest earning assets:</b>						
Interest bearing deposits with banks	\$ 68,374	\$ —	\$ —	\$ —	\$ —	\$ 68,374
Securities	—	74,960	220,366	287,438	77,127	659,891
Mortgage loans held for sale	10,756	—	—	—	—	10,756
Loans	1,353,403	490,196	694,266	458,870	19,262	3,015,997
Other interest-earning assets	—	—	—	—	41,314	41,314
<b>Total interest-earning assets</b>	<b>1,432,533</b>	<b>565,156</b>	<b>914,632</b>	<b>746,308</b>	<b>137,703</b>	<b>3,796,332</b>
<b>Interest bearing liabilities:</b>						
Demand deposits	846,022	—	—	—	—	846,022
Savings deposits	140,619	—	—	—	—	140,619
Time deposits	—	359,220	626,258	472,642	379	1,458,499
Fed funds purchased/repurchase agreements	102,849	—	—	—	—	102,849
FHLB advances	276,406	80,117	348	168,507	110,042	635,420
Long-term debt	46,996	—	—	3,100	102,500	152,596
<b>Total interest-bearing liabilities</b>	<b>1,412,892</b>	<b>439,337</b>	<b>626,606</b>	<b>644,249</b>	<b>212,921</b>	<b>3,336,005</b>
Interest rate swaps, net	197,000	—	—	—	—	197,000
Non-interest bearing sources of funds	—	—	—	—	412,309	412,309
<b>Interest sensitivity gap</b>	<b>(177,359)</b>	<b>125,819</b>	<b>288,026</b>	<b>102,059</b>	<b>(487,527)</b>	
<b>Cumulative sensitivity gap</b>	<b>\$ (177,359)</b>	<b>\$ (51,540)</b>	<b>\$236,486</b>	<b>\$338,545</b>	<b>\$(148,982)</b>	
<b>Cumulative gap percent(1)</b>	<b>-5%</b>	<b>-1%</b>	<b>6%</b>	<b>9%</b>	<b>-4%</b>	

(1) Cumulative interest rate sensitivity position as a percent of total interest-earning assets.

As demonstrated in the preceding table, 74% of interest-bearing liabilities will reprice within twelve months compared with 77% of interest-earning assets, however such changes may not be proportionate with changes in market rates within each balance sheet category. Changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. The interest rate spread between an asset and its supporting liability can vary significantly even when the timing of repricing for both the asset and the liability remains the same, due to the two instruments repricing according to different indices. This characteristic is referred to as basis risk.

Varying interest rate environments can create unexpected changes in prepayment levels of assets and liabilities that are not reflected in the interest rate sensitivity gap analysis. These prepayments may have significant impact on the net interest margin. Because of these limitations, an interest sensitivity gap analysis may not provide an accurate assessment of exposure to changes in interest rates.

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The following table presents the contractual maturity of investment securities by maturity date and average yields based on amortized cost (for all obligations on a fully taxable basis) at December 31, 2003. The composition and maturity/repricing distribution of the securities portfolio is subject to change depending on rate sensitivity, capital and liquidity needs.

**Table 14 - Expected Maturity of Available for Sale Investment Securities**

As of December 31, 2003  
(in thousands)

	Maturity By Years				
	1 or Less	1 to 5	5 to 10	Over 10	Total
U.S. Government agencies	\$20,661	\$18,765	\$172,877	\$154,176	\$366,479
State and political subdivisions	5,652	21,702	22,219	9,774	59,347
Other securities (1)	—	5,958	30,324	197,783	234,065
<b>Total securities available for sale</b>	<b>\$26,313</b>	<b>\$46,425</b>	<b>\$225,420</b>	<b>\$361,733</b>	<b>\$659,891</b>
<b>Weighted average yield (2)</b>	<b>5.80%</b>	<b>6.12%</b>	<b>4.15%</b>	<b>4.60%</b>	<b>4.60%</b>

(1) Includes mortgage-backed securities

(2) Based on amortized cost, taxable equivalent basis

In order to assist in achieving a desired level of interest rate sensitivity, United has entered into off-balance sheet contracts that are considered derivative financial instruments during 2003, 2002 and 2001. Derivative financial instruments can be a cost effective and capital effective means of modifying the repricing characteristics of on-balance sheet assets and liabilities. These contracts consist of interest rate swaps under which United pays a variable rate and receives a fixed rate. The following table presents United's interest rate swap contracts outstanding at December 31, 2003.

**Table 15 - Interest Rate Swap Contracts**

As of December 31, 2003  
(in thousands)

Type/Maturity	Notional Amount	Rate Received	Rate Paid <sup>(1)</sup>	Fair Value
<b>Cash Flow Contracts</b>				
October 24, 2005	\$ 44,000	5.57	4.00	\$ 482
December 4, 2006	15,000	5.85	4.00	100
December 17, 2006	30,000	5.99	4.00	318
October 23, 2007	108,000	6.08	4.00	1,407
<b>Total Cash Flow Contracts</b>	<b>\$197,000</b>	<b>5.93</b>	<b>4.00</b>	<b>\$2,307</b>

(1) Based on prime rate at December 31, 2003

United's derivative financial instruments are classified as cash flow and fair value hedges. The change in fair value of cash flow hedges is recognized in other comprehensive income. Fair value hedges recognize currently in earnings both the impact of change in the fair value of the derivative financial instrument and the offsetting impact of the change in fair value of the hedged asset or liability. At December 31, 2003, all derivatives were designated as cash flow hedges of prime based loans.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The consolidated financial statements of the registrant and report of independent auditors are included herein as follows:



**Porter Keadle Moore, LLP**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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

We have audited the accompanying consolidated balance sheet of United Community Banks, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. 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 auditing standards generally accepted in the United States of America. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Atlanta, Georgia  
January 27, 2004

Certified Public Accountants

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## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Consolidated Statement of Income

For the Years Ended December 31, 2003, 2002 and 2001

*(in thousands, except per share data)*

	2003	2002	2001
Interest revenue:			
Loans, including fees	\$180,035	\$168,192	\$175,494
Investment securities:			
Taxable	23,944	21,578	27,095
Tax exempt	2,819	3,207	3,571
Federal funds sold and deposits in banks	391	576	1,732
Total interest revenue	207,189	193,553	207,892
Interest expense:			
Deposits:			
Demand	7,831	11,515	12,628
Savings	369	508	1,392
Time	39,752	45,206	65,270
Total deposit interest expense	47,952	57,229	79,290
Other borrowings	22,648	19,128	21,584
Total interest expense	70,600	76,357	100,874
Net interest revenue	136,589	117,196	107,018
Provision for loan losses	6,300	6,900	6,000
Net interest revenue after provision for loan losses	130,289	110,296	101,018
Fee revenue:			
Service charges and fees	18,288	13,465	9,913
Mortgage loan and other related fees	10,515	7,751	6,179
Consulting fees	4,399	4,612	4,658
Brokerage fees	1,921	1,875	1,286
Securities gains, net	497	637	214
Loss on prepayments of borrowings	(787)	(552)	—
Other	3,351	2,946	3,017
Total fee revenue	38,184	30,734	25,267
Total revenue	168,473	141,030	126,285
Operating expenses:			
Salaries and employee benefits	68,044	57,735	49,982
Occupancy	8,783	8,261	8,011
Communications and equipment	8,601	6,555	5,986
Postage, printing, and supplies	4,439	3,731	4,452
Professional fees	3,910	3,368	3,406
Advertising and public relations	3,068	2,994	2,764
Amortization of intangibles	1,065	340	763
Merger-related charges	2,088	—	1,617
Other	9,990	8,140	8,542
Total operating expenses	109,988	91,124	85,523
Income before income taxes	58,485	49,906	40,762
Income taxes	20,367	17,126	13,531
Net income	\$ 38,118	\$ 32,780	\$ 27,231
Net income available to common shareholders	\$ 38,052	\$ 32,676	\$ 27,110
Earnings per common share:			
Basic	\$ 1.67	\$ 1.53	\$ 1.28
Diluted	1.62	1.48	1.25
Weighted average common shares outstanding (in thousands):			
Basic	22,754	21,375	21,127
Diluted	23,501	22,161	21,749

See accompanying notes to consolidated financial statements.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheet

As of December 31, 2003 and 2002

(in thousands, except share data)

	2003	2002
<b>Assets</b>		
Cash and due from banks	\$ 91,819	\$ 75,027
Interest-bearing deposits in banks	68,374	31,318
Cash and cash equivalents	160,193	106,345
Securities available for sale	659,891	559,390
Mortgage loans held for sale	10,756	24,080
Loans, net of allowance of \$38,655 and \$30,914	2,977,342	2,350,884
Premises and equipment, net	87,439	70,748
Interest receivable	20,962	20,275
Intangible assets	72,182	12,767
Other assets	80,069	66,855
<b>Total assets</b>	<b>\$4,068,834</b>	<b>\$3,211,344</b>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Deposits:		
Demand	\$ 412,309	\$ 297,613
Interest-bearing demand	846,022	734,494
Savings	140,619	100,523
Time	1,458,499	1,252,609
Total deposits	2,857,449	2,385,239
Federal funds purchased and repurchase agreements	102,849	20,263
Federal Home Loan Bank advances	635,420	492,130
Other borrowings	152,596	74,911
Accrued expenses and other liabilities	21,147	17,222
<b>Total liabilities</b>	<b>3,769,461</b>	<b>2,989,765</b>
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, \$1 par value; \$10 stated value; 10,000,000 shares authorized; issued and outstanding 55,900 and 172,600 shares	559	1,726
Common stock, \$1 par value; 50,000,000 shares authorized; issued 23,804,382 and 21,805,924 shares	23,804	21,806
Capital surplus	107,854	62,495
Retained earnings	166,887	135,709
Treasury stock, at cost; 278,350 and 542,652 shares	(7,120)	(11,432)
Accumulated other comprehensive income	7,389	11,275
<b>Total stockholders' equity</b>	<b>299,373</b>	<b>221,579</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$4,068,834</b>	<b>\$3,211,344</b>

See accompanying notes to consolidated financial statements.

**UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**For the Years Ended December 31, 2003, 2002 and 2001**  
*(in thousands, except share data)*

	Preferred Stock	Common Stock	Capital Surplus
<b>Balance, December 31, 2000</b>	\$ 2,874	\$21,028	\$ 48,872
Comprehensive income:			
Net income	—	—	—
Other comprehensive income:			
Unrealized holding gains on securities available for sale (net of deferred tax expense of \$2,829)	—	—	—
Reclassification adjustment for gains on securities available for sale included in fee revenue (net of tax expense of \$75)	—	—	—
Unrealized gains on derivative financial instruments qualifying as cash flow hedges (net of deferred tax expense of \$328)	—	—	—
Comprehensive income			
Cash dividends declared (\$.20 per share)	—	—	—
Common stock issued for acquisition (716,252 shares)	—	716	12,885
Common stock issued for options (61,774 shares)	—	62	361
Retirement of preferred stock (114,810 shares)	(1,148)	—	—
Treasury stock purchased (294,948 shares)	—	—	—
Reduction of KSOP liability	—	—	711
Cash dividends declared on preferred stock (\$.60 per share)	—	—	—
<b>Balance, December 31, 2001</b>	<b>1,726</b>	<b>21,806</b>	<b>62,829</b>
Comprehensive income:			
Net income	—	—	—
Other comprehensive income:			
Unrealized holding gains on securities available for sale (net of deferred tax expense of \$2,251)	—	—	—
Reclassification adjustment for gains on securities available for sale included in fee revenue (net of tax expense of \$223)	—	—	—
Unrealized gains on derivative financial instruments qualifying as cash flow hedges (net of deferred tax expense of \$1,336)	—	—	—
Comprehensive income			
Cash dividends declared (\$.25 per share)	—	—	—
Exercise of stock options (66,687 shares)	—	—	(577)
Treasury stock purchased (326,861 shares)	—	—	—
Employee stock grant (12,470 shares)	—	—	—
Tax benefit from options exercised	—	—	243
Cash dividends declared on preferred stock (\$.60 per share)	—	—	—
<b>Balance, December 31, 2002</b>	<b>1,726</b>	<b>21,806</b>	<b>62,495</b>
Comprehensive income:			
Net income	—	—	—
Other comprehensive income:			
Unrealized holding losses on securities available for sale (net of deferred tax benefit of \$1,541)	—	—	—
Reclassification adjustment for gains on securities available for sale included in fee revenue (net of tax expense of \$174)	—	—	—
Unrealized losses on derivative financial instruments qualifying as cash flow hedges (net of deferred tax benefit of \$857)	—	—	—
Comprehensive income			
Cash dividends declared (\$.30 per share)	—	—	—
Common stock issued for acquisition (1,998,458 shares)	—	1,998	47,893
Exercise of stock options (484,021 shares)	—	—	(3,503)
Treasury stock purchased (251,719 shares)	—	—	—
Conversion of debt (32,000 shares)	—	—	(324)
Tax benefit from options exercised	—	—	1,293
Retirement of preferred stock (116,700 shares)	(1,167)	—	—
Cash dividends declared on preferred stock (\$.60 per share)	—	—	—
<b>Balance, December 31, 2003</b>	<b>\$ 559</b>	<b>\$23,804</b>	<b>\$107,854</b>

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2000</b>	\$ 85,718	\$ —	\$ (104)	\$158,388
Comprehensive income:				

Net income	27,231	—	—	27,231
Other comprehensive income:				
Unrealized holding gains on securities available for sale (net of deferred tax expense of \$2,829)	—	—	5,288	5,288
Reclassification adjustment for gains on securities available for sale included in fee revenue (net of tax expense of \$75)	—	—	(139)	(139)
Unrealized gains on derivative financial instruments qualifying as cash flow hedges (net of deferred tax expense of \$328)	—	—	637	637
	<u>27,231</u>		<u>5,786</u>	<u>33,017</u>
Comprehensive income	27,231		5,786	33,017
Cash dividends declared (\$.20 per share)	(4,238)	—	—	(4,238)
Common stock issued for acquisition (716,252 shares)	(219)	—	—	13,382
Common stock issued for options (61,774 shares)	—	—	—	423
Retirement of preferred stock (114,810 shares)	—	—	—	(1,148)
Treasury stock purchased (294,948 shares)	—	(5,749)	—	(5,749)
Reduction of KSOP liability	—	—	—	711
Cash dividends declared on preferred stock (\$.60 per share)	(121)	—	—	(121)
	<u>108,371</u>	<u>(5,749)</u>	<u>5,682</u>	<u>194,665</u>
<b>Balance, December 31, 2001</b>	108,371	(5,749)	5,682	194,665
Comprehensive income:				
Net income	32,780	—	—	32,780
Other comprehensive income:				
Unrealized holding gains on securities available for sale (net of deferred tax expense of \$2,251)	—	—	3,812	3,812
Reclassification adjustment for gains on securities available for sale included in fee revenue (net of tax expense of \$223)	—	—	(414)	(414)
Unrealized gains on derivative financial instruments qualifying as cash flow hedges (net of deferred tax expense of \$1,336)	—	—	2,195	2,195
	<u>32,780</u>		<u>5,593</u>	<u>38,373</u>
Comprehensive income	32,780		5,593	38,373
Cash dividends declared (\$.25 per share)	(5,338)	—	—	(5,338)
Exercise of stock options (66,687 shares)	—	1,301	—	724
Treasury stock purchased (326,861 shares)	—	(7,227)	—	(7,227)
Employee stock grant (12,470 shares)	—	243	—	243
Tax benefit from options exercised	—	—	—	243
Cash dividends declared on preferred stock (\$.60 per share)	(104)	—	—	(104)
	<u>135,709</u>	<u>(11,432)</u>	<u>11,275</u>	<u>221,579</u>
<b>Balance, December 31, 2002</b>	135,709	(11,432)	11,275	221,579
Comprehensive income:				
Net income	38,118	—	—	38,118
Other comprehensive income:				
Unrealized holding losses on securities available for sale (net of deferred tax benefit of \$1,541)	—	—	(2,231)	(2,231)
Reclassification adjustment for gains on securities available for sale included in fee revenue (net of tax expense of \$174)	—	—	(323)	(323)
Unrealized losses on derivative financial instruments qualifying as cash flow hedges (net of deferred tax benefit of \$857)	—	—	(1,332)	(1,332)
	<u>38,118</u>		<u>(3,886)</u>	<u>34,232</u>
Comprehensive income	38,118		(3,886)	34,232
Cash dividends declared (\$.30 per share)	(6,874)	—	—	(6,874)
Common stock issued for acquisition (1,998,458 shares)	—	—	—	49,891
Exercise of stock options (484,021 shares)	—	9,825	—	6,322
Treasury stock purchased (251,719 shares)	—	(6,237)	—	(6,237)
Conversion of debt (32,000 shares)	—	724	—	400
Tax benefit from options exercised	—	—	—	1,293
Retirement of preferred stock (116,700 shares)	—	—	—	(1,167)
Cash dividends declared on preferred stock (\$.60 per share)	(66)	—	—	(66)
	<u>\$166,887</u>	<u>\$ (7,120)</u>	<u>\$ 7,389</u>	<u>\$299,373</u>
<b>Balance, December 31, 2003</b>	\$166,887	\$ (7,120)	\$ 7,389	\$299,373

See accompanying notes to consolidated financial statements



## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Consolidated Statement of Cash Flows

For the Years Ended December 31, 2003, 2002 and 2001

(in thousands)

	2003	2002	2001
<b>Operating activities:</b>			
Net income	\$ 38,118	\$ 32,780	\$ 27,231
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	14,570	8,559	6,299
Provision for loan losses	6,300	6,900	6,000
Deferred income tax benefit	(1,046)	(848)	(594)
Securities gains, net	(497)	(637)	(214)
Employee stock grant	—	243	—
Change in assets and liabilities, net of effects of purchase acquisitions:			
Other assets and interest receivable	(9,731)	(8,427)	(312)
Accrued expenses and other liabilities	8,578	(1,372)	(3,008)
Mortgage loans held for sale	17,739	(7,542)	(10,413)
<b>Net cash provided by operating activities</b>	<b>74,031</b>	<b>29,656</b>	<b>24,989</b>
<b>Investing activities, net of effects of purchase acquisitions:</b>			
Proceeds from sales of securities available for sale	50,493	30,385	30,457
Proceeds from maturities and calls of securities available for sale	267,330	217,707	158,317
Purchases of securities available for sale	(387,037)	(333,092)	(129,200)
Net increase in loans	(318,836)	(379,296)	(160,925)
Purchases of premises and equipment	(14,382)	(12,993)	(7,980)
Net cash received from acquisitions	83,109	—	2,895
Cash deposits for life insurance contracts	(20)	—	(942)
Proceeds from sale of other real estate	1,523	2,398	2,406
<b>Net cash used in investing activities</b>	<b>(317,820)</b>	<b>(474,891)</b>	<b>(104,972)</b>
<b>Financing activities, net of effects of purchase acquisitions:</b>			
Net change in deposits	7,957	268,740	54,859
Net change in federal funds purchased and repurchase agreements	81,604	(56,951)	24,574
Proceeds from other borrowings	58,341	8,019	14,948
Repayments of other borrowings	(17,056)	(12,799)	(8,000)
Proceeds from FHLB advances	787,600	476,699	149,000
Repayments of FHLB advances	(648,116)	(274,963)	(123,831)
Proceeds from issuance of subordinated debt	35,000	31,500	—
Proceeds from exercise of stock options	6,322	724	423
Retirement of preferred stock	(1,167)	—	(1,148)
Purchase of treasury stock	(6,237)	(7,227)	(5,749)
Cash dividends on common stock	(6,545)	(5,085)	(4,238)
Cash dividends on preferred stock	(66)	(104)	(121)
<b>Net cash provided by financing activities</b>	<b>297,637</b>	<b>428,553</b>	<b>100,717</b>
<b>Net change in cash and cash equivalents</b>	<b>53,848</b>	<b>(16,682)</b>	<b>20,734</b>
Cash and cash equivalents at beginning of year	106,345	123,027	102,293
<b>Cash and cash equivalents at end of year</b>	<b>\$ 160,193</b>	<b>\$ 106,345</b>	<b>\$ 123,027</b>

See accompanying notes to consolidated financial statements.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**(1) 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 accounting principles generally accepted in the United States of America ("GAAP") and with general practices within the banking industry. The following is a description of the more significant of those policies.

**Organization and Basis of Presentation**

United is a multi-bank holding company whose business is conducted by its wholly-owned bank subsidiaries. United is subject to regulation under the Bank Holding Company Act of 1956. The consolidated financial statements include the accounts of United Community Banks, Inc. and its wholly-owned commercial bank subsidiaries in Georgia, North Carolina and Tennessee (collectively, the "Banks"), and Brintech, Inc., a financial services consulting subsidiary based in Florida. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Banks are commercial banks that serve markets throughout north Georgia, coastal Georgia, metropolitan Atlanta, western North Carolina and east Tennessee and provide a full range of banking services. The Banks are insured and subject to the regulation of the Federal Deposit Insurance Corporation ("FDIC") and are also subject to the regulation of state regulatory authorities.

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 dates of the balance sheet and revenue and expenses for the years then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change are the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and the valuation of goodwill and separately identifiable intangible assets associated with mergers and acquisitions.

**Cash and Cash Equivalents**

Cash equivalents include amounts due from banks, interest-bearing deposits in banks, and federal funds sold. Federal funds are generally sold for one-day periods and interest-bearing deposits in banks mature within a period less than 90 days.

**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. 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. At December 31, 2003 and 2002, all securities were classified as available for sale.

Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Available for sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available for sale securities are excluded from net income and are reported in other comprehensive income 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. These unrealized holding gains or losses are amortized into income over the remaining life of the security as an adjustment to the yield in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security.

A decline in the fair value of available for sale and held to maturity securities 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 net income and derived using the specific identification method for determining the cost of the securities sold.

Federal Home Loan Bank stock and other equity investments are included in other assets at their original cost basis, as cost approximates fair value and there is no ready market for such investments.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

**(1) Summary of Significant Accounting Policies, continued****Mortgage Loans Held for Sale**

Mortgage loans held for sale are carried at the lower of aggregate cost or market value. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes in the valuation allowance are included in the determination of net income for the period in which the change occurs. No market valuation allowances were required at December 31, 2003 or 2002 since most loans are pre-sold before they are funded, and those loans not presold have market values which approximated the recorded basis.

**Loans and Allowance for Loan Losses**

All loans are stated at principal amount outstanding, net of any unearned revenue. Interest on loans is primarily calculated by using the simple interest method on daily balances of the principal amount outstanding.

The accrual of interest is discontinued when a loan becomes 90 days past due and is not both well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged against interest revenue on loans. Generally, payments received on nonaccrual loans are applied to principal.

A loan is considered impaired when, based on current information and events, it is probable that all amounts due, according to the contractual terms of the loan, will not be collected. Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Interest revenue on impaired loans is recognized using the cash-basis method of accounting during the time the loans were impaired.

The allowance for loan losses is established through a provision for loan losses charged to income. Loans are charged against the allowance for loan losses when available information confirms that the collectibility of the principal is unlikely. The allowance represents an amount, which, in management's judgment, is adequate to absorb probable losses on existing loans as of the date of the balance sheet.

The allowance is composed of general reserves and specific reserves. General reserves are determined by applying loss percentages to the portfolio that are based on historical loss experience and management's evaluation and "risk grading" of the commercial loan portfolio. Additionally, the general economic and business conditions affecting key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, the findings of internal credit reviews and results from external bank regulatory examinations are included in this evaluation. The need for specific reserves is evaluated on commercial loans that are classified in the Watch, Substandard or Doubtful risk grades, when necessary. The specific reserves are determined on a loan-by-loan basis based on management's evaluation of United's exposure for each credit, given the current payment status of the loan and the value of any underlying collateral. Loans for which specific reserves are provided are excluded from the calculation of general reserves.

Management prepares a quarterly analysis of the allowance for loan losses and material deficiencies are adjusted by increasing the provision for loan losses. Management has an internal loan review department that is independent of the lending function to challenge and corroborate the loan grading system and provide additional analysis in determining the adequacy of the allowance for loan losses. Management also outsources loan review on a rotating basis to ensure objectivity in the loan review process.

Management believes the allowance for loan losses is adequate at December 31, 2003. 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 or deductions to the allowance based on their judgment and information available to them at the time of their examination.

**Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the related assets. Costs incurred for maintenance and repairs are expensed as incurred. The range of estimated useful lives for buildings and improvements is 15 to 40 years, for land improvements, 10 to 35 years, and for furniture and equipment, 3 to 10 years.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

## (1) Summary of Significant Accounting Policies, continued

**Goodwill and Other Intangibles**

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill and other intangible assets deemed to have an indefinite useful life are not amortized but instead are subject to an annual review for impairment. Prior to December 31, 2001, United had amortized goodwill on a straight-line basis over periods not exceeding 25 years. In 2001, United recorded goodwill amortization expense of \$423,000.

Also in connection with business combinations involving banks and branch locations, United generally records core deposit intangibles representing the value of the acquired core deposit base. Core deposit intangibles are amortized over the estimated useful life of the deposit base, generally on a straight-line basis not exceeding 15 years. The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant a revision to the remaining period of amortization.

**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 of a change in tax rates on deferred tax assets and liabilities is recognized in income taxes during 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 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 earnings and tax planning strategies.

**Stock-Based Compensation**

United's stock-based compensation plans are accounted for based on the intrinsic value method set forth in Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations. Compensation expense for employee stock options is not recognized if the exercise price of the option equals or exceeds the fair value of the stock on the date of grant. Compensation expense for restricted share awards is ratably recognized over the period of service, usually the restricted period, based on the fair value of the stock on the date of grant. The following table illustrates the effect on net income and earnings per share if United had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 to stock-based compensation (*in thousands, except per share data*):

	2003	2002	2001
Net income available to common shareholders:			
As reported	\$38,052	\$32,676	\$27,110
Pro forma	37,594	32,024	26,517
Basic earnings per common share:			
As reported	1.67	1.53	1.28
Pro forma	1.65	1.50	1.26
Diluted earnings per common share:			
As reported	1.62	1.48	1.25
Pro forma	1.60	1.45	1.23

The weighted average fair value of options at grant date in 2003, 2002, and 2001 was \$5.20, \$4.85 and \$3.95, respectively.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

## (1) Summary of Significant Accounting Policies, continued

## Stock-Based Compensation, continued

The fair value of options granted in 2003 was estimated on the date of grant using the Black-Scholes model with the following weighted average assumptions: dividend yield of 1%; a risk free interest rate of 3.48%; expected volatility of 15%; and, an expected life of 7 years. The fair value of options granted in 2002 was estimated on the date of grant using the Black-Scholes model with the following weighted average assumptions: dividend yield of 1%; a risk free interest rate of 4.25%; expected volatility of 15%; and, an expected life of 7 years. Since United's Nasdaq trading history dates back only to March 18, 2002, United used the Nasdaq Bank Index to determine volatility. The fair value of options granted prior to 2002 was estimated on the date of grant using the minimum value method with the following weighted average assumptions used for grants in 2001 and 2000: dividend yield of 1%; a risk free interest rate of 5%; and, an expected life of 7 years. The compensation expense included in the proforma results was determined based on the fair value at the time of grant multiplied by the number of options vested during the period, net of tax.

## Derivative Instruments and Hedging Activities

United's interest rate risk-management strategy incorporates the use of derivative instruments to minimize fluctuations in net income that are caused by interest rate volatility. United's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. United views this strategy as a prudent management of interest rate sensitivity, such that net income is not exposed to undue risk presented by changes in interest rates.

In carrying out this part of its interest rate risk-management strategy, United primarily uses interest rate swap contracts. Interest rate swaps generally involve the exchange of fixed- and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. United's hedging strategies involving interest rate swaps are classified as either Fair Value Hedges or Cash Flow Hedges, depending on the rate characteristics of the hedged item.

**Fair Value Hedge:** As a result of interest rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in fair value. When effectively hedged, this appreciation or depreciation will generally be offset by fluctuations in the fair value of the derivative instruments that are linked to the hedged assets and liabilities. This strategy is referred to as a fair value hedge.

**Cash Flow Hedge:** Cash flows related to floating-rate assets and liabilities will fluctuate with changes in an underlying rate index. When effectively hedged, the increases or decreases in cash flows related to the floating rate asset or liability will generally be offset by changes in cash flows of the derivative instrument designated as a hedge. This strategy is referred to as a cash flow hedge.

By using derivative instruments, United is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the fair-value gain in a derivative. When the fair value of a derivative contract is positive, this situation generally indicates that the counterparty is obligated to pay United, and, therefore, creates a repayment risk for United. When the fair value of a derivative contract is negative, United is obligated to pay the counterparty and, therefore, it has no repayment risk. United minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by United, and United requires the counterparty to pledge collateral to cover the positive fair value.

United's derivative activities are monitored by its asset/liability management committee as part of that committee's oversight of United's asset/liability and treasury functions. United's asset/liability committee is responsible for implementing various hedging strategies that are developed through its analysis of data from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest-rate risk management process.

United recognizes the fair value of derivatives as assets or liabilities in the financial statements. The accounting for the changes in the fair value of a derivative depends on the intended use of the derivative instrument at inception. The change in fair value of instruments used as fair value hedges is accounted for in the net income of the period simultaneous with accounting for the fair value change of the item being hedged. The change in fair value of the effective portion of cash flow hedges is accounted for in other comprehensive income rather than net income. The change in fair value of derivative instruments that are not intended as a hedge is accounted for in the net income of the period of the change.

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

(1) **Summary of Significant Accounting Policies, continued**

**Derivative Instruments and Hedging Activities, continued**

As of December 31, 2003, United had cash flow hedges with a notional amount of approximately \$197 million for the purpose of converting floating rate assets to fixed rate. As of December 31, 2003, United recorded an asset of approximately \$2.3 million for the fair value of these instruments. No hedge ineffectiveness from cash flow hedges was recognized in the statement of income. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

As of December 31, 2002, United had cash flow hedges with a notional amount of approximately \$380 million for the purpose of converting floating rate assets to fixed rate. As of December 31, 2002, United recorded an asset of approximately \$4.5 million for the fair value of these instruments. No hedge ineffectiveness from cash flow hedges was recognized in the statement of income. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

As of December 31, 2002, United had one fair value hedge with a notional amount of \$15 million. This derivative was used to convert fixed rate liabilities to floating rate.

**Reclassifications**

Certain 2002 and 2001 amounts have been reclassified to conform to the 2003 presentation.

**Stock Split**

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

**Other**

Assets held by United in a fiduciary or agency capacity for customers are not included in the consolidated balance sheets since such items are not assets of United.

**Accumulated Other Comprehensive Income**

GAAP normally require that recognized revenues, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheets, such items with net income, are components of comprehensive income. United presents comprehensive income as a component of the statement of changes in stockholders' equity.

(2) **Recent Accounting Pronouncements**

**Employers' Disclosures about Pensions and Other Postretirement Benefits**

In December 2003, the Financial Accounting Standards Board ("FASB") revised SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This statement retains the disclosures required by the original SFAS No. 132 and requires additional disclosures about the assets, obligations, cash flows and net periodic benefit costs of defined benefit pension and postretirement plans. In addition, this statement requires interim period disclosure of the components of net period benefit cost and contributions if significantly different from previously reported amounts. United does not currently offer a defined benefit pension plan or other postretirement benefits to its employees, so this standard had no effect on United's financial position, results of operations or disclosures.

**Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity**

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement establishes standards for classifying and measuring certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. The provisions of SFAS 150 became effective June 1, 2003, for all financial statements created or modified after May 31, 2003, and otherwise became effective as of July 1, 2003. The adoption of this standard did not have a material impact on United's financial condition, results of operations or liquidity.

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

**(2) Recent Accounting Pronouncements, continued**

**Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, continued**

In November 2003, the FASB deferred for an indefinite period the application of the guidance in SFAS 150 to noncontrolling interests that are classified as equity in the financial statements of a subsidiary but would be classified as a liability in the parent's financial statements under SFAS 150. The deferral is limited to mandatorily redeemable noncontrolling interests associated with finite-lived subsidiaries. Management does not believe any such application entities exist as of December 31, 2003.

**Amendment of Statement on Derivative Instruments and Hedging Activities**

In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends and clarifies financial accounting and reporting for derivative instruments and hedging activities under SFAS 133, as well as amends certain other existing FASB pronouncements. In general, SFAS 149 is effective for derivative transactions entered into or modified and for hedging relationships designated after June 30, 2003. The adoption of this standard did not have a material impact on United's financial condition, results of operations or liquidity.

**Consolidation of Variable Interest Entities**

In January 2003, the FASB issued FASB Interpretation ("FIN") 46, which provides guidance on how to identify a *Consolidation of Variable Interest Entities ("VIE")* and determine when the assets, liabilities, noncontrolling interests, and results of operations of a VIE are to be included in an entity's consolidated financial statements. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics include the direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights, the obligation to absorb the expected losses of an entity if they occur, or the right to receive the expected residual returns of the entity if they occur.

In October 2003, the FASB issued FASB Staff Position FIN 46-6, *Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities*, which defers the effective date until December 31, 2003 for calendar year-end companies for applying the provisions of FIN 46 for interests held in entities created or acquired before February 1, 2003, with partial early adoption permitted. United will apply the provisions of FIN 46 to its three wholly-owned subsidiary trusts that have issued capital securities to third-party investors and to certain direct and indirect interests in investment partnerships beginning January 1, 2004. The application of FIN 46 will result in the deconsolidation of the three wholly-owned subsidiary trusts. The assets and liabilities of the subsidiary trusts that will be deconsolidated totaled approximately \$37.1 million at December 31, 2003. Deconsolidation will result in increases in other assets and long-term debt and other borrowings of approximately \$1.1 million, each beginning in the first quarter of 2004.

Management continues to evaluate the applicability of FIN 46 on various other investments and interests, including affordable housing partnership interests. Management does not believe that the application of FIN 46 to any of these investments or interests, if required, will have a material impact on United's financial condition, results of operations or liquidity.

**(3) Mergers and Acquisitions**

On October 24, 2003, United completed the acquisition of two branch locations in the western North Carolina counties of Avery and Mitchell. On November 14, 2003, United completed the acquisition of a third branch location in the western North Carolina county of Graham from the same financial institution. The three acquired branch locations, which are an extension of United's existing North Carolina markets, provide access to new customers in growing markets. Combined, the acquired branches added approximately \$11 million in loans, approximately \$72 million in deposits and \$7 million in intangibles. Results of operations of the acquired branches are included in United's consolidated results beginning on the acquisition dates.

On May 1, 2003, United acquired 100 percent of the outstanding common shares of First Georgia Holding ("First Georgia"), a community bank holding company headquartered in Brunswick, Georgia. First Georgia's results of operations are included in consolidated financial results from the acquisition date. First Georgia was the parent company of First Georgia Bank, a community bank with offices serving the south Georgia coast along the Interstate 95 corridor. United targeted coastal Georgia for potential expansion due to the attractive demographics and the similarities to its existing markets. The aggregate purchase price was approximately \$42.1 million, including approximately \$12.8 million of cash and 1,177,298 shares of United's common stock valued at approximately \$29.3 million. The value of the common shares issued of \$24.87 per share was determined based on the average of the closing market price of United's common shares over the two-day period before and after the terms of the acquisition were agreed to and announced.

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

**(3) Mergers and Acquisitions, continued**

On March 31, 2003, United acquired 100 percent of the outstanding common shares of First Central Bancshares, Inc. ("First Central") a community bank holding company headquartered in Lenoir City, Tennessee. First Central's results of operations are included in consolidated financial results from the acquisition date. First Central was the parent company of First Central Bank, a community bank with 8 banking offices serving east Tennessee in the Knoxville MSA and surrounding markets. United had long sought to enter the east Tennessee market with its attractive demographics and its close proximity to United's existing markets. The aggregate purchase price was approximately \$29.6 million, including approximately \$9 million of cash and 821,160 shares of United's common stock valued at approximately \$20.6 million. The value of the common shares issued of \$25.10 per share was determined based on the average closing market price of United's common shares over the two-day period before and after the terms of the acquisition were agreed to and announced.

On November 6, 2001, United acquired 100 percent of the outstanding common shares of Peoples Bancorp, Inc. ("West Georgia") a community bank holding company headquartered in Carrollton, Georgia. West Georgia's results of operations are included in consolidated financial results from the acquisition date. West Georgia was the parent company of Peoples Bank of West Georgia, a community bank with 4 banking offices serving the western side of metropolitan Atlanta. The purchase price was approximately \$13.6 million, representing 716,252 shares of United's common stock. The value of the common shares issued of \$19.00 per share was determined based on the last trade known to United on the date the transaction was announced.

The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of each acquisition in 2003 (*in thousands*) :

	First Central	First Georgia	North Carolina Branches
<b>Assets Acquired:</b>			
Cash and cash equivalents	\$ 47,193	\$ 23,399	\$ 537
Investment securities	31,242	18,829	—
Loans held for sale	4,415	—	—
Loans, net	86,163	218,060	10,608
Premises and equipment	4,732	4,089	608
Core deposit intangible	2,860	7,370	1,200
Goodwill	17,496	25,956	5,598
Other assets	1,578	5,935	43
	<hr/>	<hr/>	<hr/>
Total assets acquired	195,679	303,638	18,594
<b>Liabilities Assumed:</b>			
Deposits	163,189	248,772	72,286
Other borrowed funds	—	5,670	—
Other liabilities	2,886	7,124	52
	<hr/>	<hr/>	<hr/>
Total liabilities assumed	166,075	261,566	72,338
	<hr/>	<hr/>	<hr/>
Net assets acquired	\$ 29,604	\$ 42,072	\$(53,744)

Core deposit intangibles related to the 2003 acquisitions are being amortized over a period of 10 years. Goodwill resulting from the acquisitions of First Central Bank and First Georgia Bank will not be amortized nor be deductible for tax purposes. Goodwill resulting from the North Carolina branch acquisitions will not be amortized but will be deductible for tax purposes.



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

**(3) Mergers and Acquisitions, continued**

United recorded merger, integration and restructuring charges associated with acquisitions of \$2.1 million and \$1.6 million during 2003 and 2001, respectively. The components of the charges are shown below (*in thousands*):

	2003	2001
Merger charges included in expenses:		
Salaries and employee benefits - severance and related costs	\$ 135	\$ 433
Occupancy - disposal of premises and equipment	—	306
Professional fees	885	173
Contract termination costs	566	255
Other merger-related expenses	502	450
	<u>          </u>	<u>          </u>
Total merger-related charges	\$2,088	\$1,617
	<u>          </u>	<u>          </u>

At December 31, 2003, accrued severance and other merger costs of \$67,000 remained unpaid relating to the 2003 merger charges. The amounts are expected to be paid in early 2004. At December 31, 2001, approximately \$268,000 remained accrued for unpaid merger charges recorded in 2001, most of which was for legal fees and systems conversion costs which were paid during 2002.

The financial information below presents the proforma earnings of United assuming that the results of operations of First Central Bank and First Georgia Bank were included in consolidated earnings for the full years of 2003 and 2002.

	2003	2002
Total revenue	\$170,369	\$158,994
Net income	31,103	35,026
Diluted earnings per common share	1.29	1.45

Included in the proforma earnings for 2003 were executive change of control payments and other severance costs of \$3.5 million, contract termination costs of \$1.6 million, and asset write downs to net realizable value of \$1.5 million for incompatible and unusable equipment. The effective tax rate for 2003 has been adjusted to reflect charges that are not tax deductible.

**(4) Cash Flows**

United paid approximately \$70 million, \$78 million and \$104 million in interest on deposits and other borrowings during 2003, 2002 and 2001, respectively. In connection with United's 2003 acquisitions of First Central Bank, First Georgia Bank and three branches in western North Carolina, assets having a fair value of approximately \$520 million were acquired, and liabilities totaling approximately \$500 million were assumed. In connection with United's 2001 acquisition of West Georgia, assets having a fair value of approximately \$88 million were acquired, and liabilities totaling approximately \$75 million were assumed.

During 2003, 2002 and 2001, loans having a carrying value of \$8.2 million, \$7.9 million and \$7.9 million, respectively, were transferred to other real estate.

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

**(5) Securities Available for Sale**

The cost basis, unrealized gains and losses, and fair value of securities available for sale at December 31, 2003 and 2002 are listed below (*in thousands*):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>As of December 31, 2003</b>				
U.S. Government agencies	\$362,500	\$ 4,606	\$ 627	\$366,479
State and political subdivisions	56,135	3,232	20	59,347
Mortgage-backed securities	228,743	1,711	553	229,901
Other	3,453	711	—	4,164
Total	<u>\$650,831</u>	<u>\$10,260</u>	<u>\$1,200</u>	<u>\$659,891</u>
<b>As of December 31, 2002</b>				
U.S. Government agencies	\$209,560	\$ 6,958	\$ 1	\$216,517
State and political subdivisions	69,355	3,144	—	72,499
Mortgage-backed securities	261,453	2,714	427	263,740
Other	5,693	941	—	6,634
Total	<u>\$546,061</u>	<u>\$13,757</u>	<u>\$ 428</u>	<u>\$559,390</u>

The following summarizes securities in an unrealized loss position as of December 31, 2003 (*in thousands*):

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government agencies	\$ 86,131	\$ 627	\$—	\$—	\$ 86,131	\$ 627
State and political subdivisions	377	18	19	2	396	20
Mortgage-backed securities	49,046	553	—	—	49,046	553
Total unrealized loss position	<u>\$135,554</u>	<u>\$1,198</u>	<u>\$ 19</u>	<u>\$ 2</u>	<u>\$135,573</u>	<u>\$1,200</u>

Management does not believe any individual unrealized loss as of December 31, 2003 represents an other-than-temporary impairment. The unrealized losses reported for mortgage-backed securities relate primarily to securities issued by FNMA, FHLMC and private institutions. These unrealized losses are primarily attributable to changes in interest rates. United has both the intent and ability to hold the securities contained in the table above for a time necessary to recover the amortized cost.

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

**(5) Securities Available for Sale, continued**

The amortized cost and fair value of the investment securities at December 31, 2003, by contractual maturity, is presented in the following table (*in thousands*). Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
U.S. Government agencies:		
Within 1 year	\$ 20,314	\$ 20,661
1 to 5 years	18,429	18,765
5 to 10 years	172,166	172,877
More than 10 years	151,591	154,176
	<u>362,500</u>	<u>366,479</u>
State and political subdivisions:		
Within 1 year	5,623	5,652
1 to 5 years	20,597	21,702
5 to 10 years	20,573	22,219
More than 10 years	9,342	9,774
	<u>56,135</u>	<u>59,347</u>
Other:		
1 to 5 years	3,453	4,164
Total securities other than mortgage-backed securities:		
Within 1 year	25,937	26,313
1 to 5 years	42,479	44,631
5 to 10 years	192,739	195,096
More than 10 years	160,933	163,950
Mortgage-backed securities	<u>228,743</u>	<u>229,901</u>
	<u>\$650,831</u>	<u>\$659,891</u>

The following summarizes securities sales activities for the years ended December 31, 2003, 2002 and 2001 (*in thousands*):

	2003	2002	2001
Proceeds from sales	<u>\$50,493</u>	<u>\$30,385</u>	<u>\$30,457</u>
Gross gains on sales	\$ 783	\$ 701	\$ 235
Gross losses on sales	286	64	21
Net gains on sales of securities	<u>\$ 497</u>	<u>\$ 637</u>	<u>\$ 214</u>
Income taxes attributable to sales	<u>\$ 174</u>	<u>\$ 223</u>	<u>\$ 75</u>

At December 31, 2003 and 2002, securities with a carrying value of \$629 million and \$533 million, respectively, were pledged to secure public deposits and Federal Home Loan Bank ("FHLB") advances.

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

**(6) Loans and Allowance for Loan Losses**

Major classifications of loans at December 31, 2003 and 2002, are summarized as follows (*in thousands*):

	2003	2002
Commercial (commercial and industrial)	\$ 190,189	\$ 140,515
Commercial (secured by real estate)	776,591	612,926
Commercial	966,780	753,441
Construction (secured by real estate)	927,087	700,007
Residential mortgage	981,961	793,284
Installment	140,169	135,066
Total loans	3,015,997	2,381,798
Less - allowance for loan losses	38,655	30,914
Loans, net	<u>\$2,977,342</u>	<u>\$2,350,884</u>

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

United had \$536,000 and \$2.0 million of loans classified as impaired at December 31, 2003 and 2002, respectively, for which specific reserves of \$118,000 and \$591,000, respectively had been allocated. United's policy is to recognize interest revenue on a cash basis for loans classified as impaired.

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

	2003	2002	2001
Balance at beginning of year	\$30,914	\$27,124	\$24,698
Provision for loan losses	6,300	6,900	6,000
Charge-offs	(5,269)	(4,303)	(5,523)
Recoveries	1,172	1,193	945
Allowance acquired through acquisitions	5,538	—	1,004
Balance at end of year	<u>\$38,655</u>	<u>\$30,914</u>	<u>\$27,124</u>

In the ordinary course of business, the Banks may have loans outstanding to Executive Officers and Directors, including their immediate families and companies with which they are associated. Management believes that such loans are made substantially on the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other customers. The following is a summary of such loans outstanding and the activity in these loans for the year ended December 31, 2003 (*in thousands*):

Balance at December 31, 2002	\$ 13,131
New Loans	28,423
Repayments	(21,404)
Adjustment for changes in executive officers and directors	(441)
Balance at December 31, 2003	<u>\$ 19,709</u>

At December 31, 2003, loans with a carrying value of \$754 million were pledged as collateral to secure FHLB advances.

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

**(7) Premises and Equipment**

Premises and equipment at December 31, 2003 and 2002, *(in thousands)*:

	2003	2002
Land and land improvements	\$ 24,051	\$17,499
Buildings and improvements	50,913	41,473
Furniture and equipment	40,405	35,010
Construction in progress	6,058	5,038
	121,427	99,020
Less - accumulated depreciation	33,988	28,272
	\$ 87,439	\$70,748

Depreciation expense was approximately \$7.2 million, \$6.3 million and \$5.7 million for 2003, 2002 and 2001, respectively.

**(8) Goodwill and Other Intangible Assets**

Upon the adoption of SFAS No. 142 on January 1, 2002, United ceased amortizing goodwill. The proforma effects of applying SFAS No. 142 to 2001 decreased goodwill amortization expense by \$423,000 (non-deductible for tax purposes) and would have increased reported net income of \$27.1 million to \$27.5 million and reported earnings per share by \$.02 (basic from \$1.28 to \$1.30 and diluted from \$1.25 to \$1.27).

United has finite-lived intangible assets capitalized on its balance sheet in the form of core deposit intangibles. These intangible assets continue to be amortized over their estimated useful lives of no more than 15 years and there were no adjustments to the useful lives as a result of the adoption of SFAS No. 142.

A summary of changes in goodwill is as follows *(in thousands)*:

	2003	2002
Beginning balance	\$10,053	\$10,053
Goodwill acquired	49,050	—
Ending balance	\$59,103	\$10,053

A summary of core deposit intangible assets follows *(in thousands)*:

	2003	2002
Gross carrying amount	\$16,556	\$5,126
Less: accumulated amortization	3,477	2,412
Net carrying amount	\$13,079	\$2,714

Amortization expense on finite-lived intangible assets was approximately \$1,065,000 in 2003 and approximately \$340,000 for 2002 and 2001. Amortization expense for each of the years 2004 through 2008 is estimated to be approximately \$1.5 million.

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

**(9) Deposits**

The aggregate amount of time deposit accounts with a minimum denomination of \$100,000 was approximately \$406 million and \$370 million at December 31, 2003 and 2002, respectively.

At December 31, 2003, the contractual maturities of time deposits are summarized as follows (*in thousands*):

<u>Maturing In:</u>	
2004	\$ 985,478
2005	252,601
2006	129,189
2007	38,154
2008	52,698
thereafter	379
	<u>\$ 1,458,499</u>

At December 31, 2003, United held \$237 million in certificates of deposit obtained through the efforts of third party brokers. The daily average balance of such agreements totaled \$275 million in 2003. The weighted average rate paid during 2003 was 2.2%, and the weighted average rate as of December 31, 2003 was 1.9%. These deposits have maturity dates ranging from two weeks to five years.

At December 31, 2003 and 2002, \$1,574,000 and \$1,151,000 in overdrawn deposit accounts were reclassified as loans.

**(10) Federal Home Loan Bank Advances**

At December 31, 2003, the Banks had advances totaling approximately \$635 million from the FHLB of which approximately \$284 million are fixed rate advances and the remaining approximately \$351 million are variable. Monthly interest payments and principal payments are due at various maturity dates and interest rates ranging from .52% to 7.81% at December 31, 2003. At December 31, 2003, the weighted average interest rate on FHLB advances was 2.29%. The FHLB advances are collateralized by commercial (secured by real estate) and residential mortgage loans, investment securities and FHLB stock.

At December 31, 2003, the maturities and current rates of outstanding advances were as follows (*in thousands*):

<u>Maturing In:</u>	<u>Amount Maturing</u>	<u>Current Rate Range</u>
2004	\$281,405	1.15% — 5.01%
2005	85,000	1.16% — 6.37%
2006	75,500	.52% — 5.18%
2007	35,000	2.82% — 3.25%
2008	47,249	1.64% — 6.20%
thereafter	111,266	3.26% — 7.81%
	<u>\$635,420</u>	

Timing of principal payments may differ from the maturity schedule shown above as some advances include call options that allow the FHLB to require repayment prior to the maturity date.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

## (11) Other Borrowings

Other borrowings at December 31, 2003 and 2002 consisted of the following (in thousands):

	2003	2002
Subordinated debentures	\$ 66,500	\$31,500
Line of credit	45,000	—
Trust preferred securities	36,000	36,000
Convertible subordinated debentures	3,100	3,500
Commercial paper	1,996	3,911
Total	\$152,596	\$74,911

## Subordinated Debentures

On September 30, 2003, United issued \$35 million in subordinate step-up notes due September 30, 2015. The notes bear interest at a fixed rate of 6.25% through September 30, 2010, and at a fixed rate of 7.50% thereafter until maturity or earlier redemption. The notes are callable at par on September 30, 2010, and September 30 of each year thereafter until maturity.

On November 26, 2002, United issued subordinated debentures due November 26, 2012. The subordinated debentures bear interest at a fixed rate of 6.75%, payable semiannually. These debentures may not be redeemed, in whole or in part prior to maturity.

## Lines of Credit

United has a line of credit agreement with a financial institution to borrow up to \$40 million with an interest rate indexed to the prime rate. The agreement is renewable each year. United has pledged the stock of its North Carolina and Tennessee bank subsidiaries as collateral securing any amounts outstanding on the line of credit. There were no borrowings outstanding under this agreement as of December 31, 2003.

United has a joint credit agreement with two financial institutions to borrow up to \$45 million with interest based on LIBOR, adjusted monthly. The agreement is renewable annually, and United has pledged the common stock of its Georgia bank subsidiary as collateral securing any amounts outstanding on the line of credit. At December 31, 2003, \$45 million was outstanding under this agreement.

## Trust Preferred Securities

In September 2000, United formed a wholly owned Connecticut statutory business trust, United Community Statutory Trust I (“United Statutory Trust”), which issued \$5 million of guaranteed preferred beneficial interests in United’s junior subordinated deferrable interest debentures (the “Trust Preferred Securities I”). These debentures qualify as Tier 1 capital under Federal Reserve Board guidelines. All of the common securities of United Statutory Trust are owned by United. The proceeds from the issuance of the common securities and the Trust Preferred Securities I were used by United Statutory Trust to purchase \$5.2 million of junior subordinated debentures of United, which carry a fixed interest rate of 10.60%. The proceeds received by United from the sale of the junior subordinated debentures were used to prepay other borrowings of approximately \$1.9 million and for other corporate purposes. The debentures represent the sole asset of United Statutory Trust. The debentures and related earnings statement effects are eliminated in United’s financial statements.

The Trust Preferred Securities I accrue and pay distributions semiannually at a fixed rate of 10.60% per annum of the stated liquidation value of \$1,000 per capital security. United has entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of: (i) accrued and unpaid distributions required to be paid on the Trust Preferred Securities I; (ii) the redemption price with respect to any Trust Preferred Securities I called for redemption by United Statutory Trust, and (iii) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of United Statutory Trust.

The Trust Preferred Securities I are mandatorily redeemable upon maturity of the debentures on September 7, 2030, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Statutory Trust in whole or in part, on or after September 7, 2010. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount, any accrued but unpaid interest, plus a premium ranging from 5.3% in 2010 to .53% in 2019.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

**(11) Other Borrowings, continued**

In July 2000, United formed a wholly owned Delaware statutory business trust, United Community Capital Trust II (“United Trust II”), which issued \$10 million of guaranteed preferred beneficial interests in United’s junior subordinated deferrable interest debentures (the “Trust Preferred Securities II”). These debentures qualify as Tier 1 capital under Federal Reserve Board guidelines. All of the common securities of United Trust II are owned by United. The proceeds from the issuance of the common securities and the Trust Preferred Securities II were used by United Trust II to purchase \$10.3 million of junior subordinated debentures of United, which carry a fixed interest rate of 11.295%. The proceeds received by United from the sale of the junior subordinated debentures were used to prepay other borrowings of approximately \$10.6 million. The debentures represent the sole asset of United Trust II. The debentures and related earnings statement effects are eliminated in United’s financial statements.

The Trust Preferred Securities II accrue and pay distributions semiannually at a fixed rate of 11.295% per annum of the stated liquidation value of \$1,000 per capital security. United has entered into contractual arrangements which, taken collectively, fully and unconditionally, guarantee payment of: (i) accrued and unpaid distributions required to be paid on the Trust Preferred Securities II; (ii) the redemption price with respect to any Trust Preferred Securities II called for redemption by United Trust II, and (iii) payments due upon a voluntary or involuntary dissolution, winding up or liquidation of United Trust II.

The Trust Preferred Securities II are mandatorily redeemable upon maturity of the debentures on July 19, 2030, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Trust II in whole or in part, on or after July 19, 2010. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount, any accrued but unpaid interest, plus a premium ranging from 2.824% in 2010 to .565% in 2019.

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

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

The Trust Preferred Securities III are mandatorily redeemable upon maturity of the debentures on July 15, 2028, or upon earlier redemption as provided in the indenture. United has the right to redeem the debentures purchased by United Trust: (i) in whole or in part, on or after July 15, 2008, and (ii) in whole (but not in part) at any time within 90 days following the occurrence and during the continuation of a tax event, investment company event or capital treatment time (as defined in the offering circular). As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount, any accrued but unpaid interest, plus a premium ranging from 4.06% in 2008 to .41% in 2017.

**Convertible Subordinated Debentures**

On December 31, 1996, United completed a private placement of convertible subordinated debentures due December 31, 2006. The convertible subordinated debentures bear interest at the rate of .25% over the prime interest rate, payable quarterly. They may be redeemed, in whole or in part at the option of United, within 60 days notice, at a redemption price equal to 100% of the principal amount of the convertible subordinated debentures plus accrued interest. The convertible subordinated debentures are exercisable at any time, and may be converted into shares of common stock of United at the price of \$12.50 per share, subject to adjustment for stock splits and stock dividends.

At both December 31, 2003 and 2002, certain Directors and Executive Officers of United held convertible debentures totaling \$1,925,000.



## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

**(12) Earnings Per Share**

United is required to report on the face of the statement of income, earnings per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants. Basic earnings per common share is based on the weighted average number of common shares outstanding during the period while the effects of potential common shares outstanding during the period are included in diluted earnings per common share. During 2003, 2002 and 2001, United paid dividends to Series A preferred stockholders totaling \$66,000, \$104,000 and \$121,000, respectively.

The following table sets forth the computation of basic and diluted earnings per common share for the years ended December 31, 2003, 2002 and 2001 (*in thousands, except per share data*):

	2003	2002	2001
Net income available to common shareholders	\$38,052	\$32,676	\$27,110
Effects of convertible debentures	95	113	169
<b>Diluted net earnings</b>	<b>\$38,147</b>	<b>\$32,789</b>	<b>\$27,279</b>
Earnings per common share:			
Basic	\$ 1.67	\$ 1.53	\$ 1.28
Diluted	1.62	1.48	1.25
Weighted average common shares:			
Basic	22,754	21,375	21,127
Effect of dilutive securities:			
Stock options	477	506	342
Convertible debentures	270	280	280
<b>Diluted</b>	<b>23,501</b>	<b>22,161</b>	<b>21,749</b>

**(13) Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2003, 2002 and 2001 (*in thousands*):

	2003	2002	2001
Current	\$21,413	\$17,974	\$14,125
Deferred	(1,046)	(848)	(594)
<b>Total income tax expense</b>	<b>\$20,367</b>	<b>\$17,126</b>	<b>\$13,531</b>

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate (of 35%) to pretax earnings are as follows (*in thousands*):

	2003	2002	2001
Pretax earnings at statutory rates	\$20,470	\$17,467	\$14,267
Add (deduct):			
State taxes, net of federal benefit	917	1,067	1,002
Tax-exempt interest revenue	(1,149)	(1,123)	(1,438)
Nondeductible interest expense	95	164	232
Other	34	(449)	(532)
	<b>\$20,367</b>	<b>\$17,126</b>	<b>\$13,531</b>

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

**(13) Income Taxes, continued**

The following summarizes the sources and expected tax consequences of future taxable deductions (revenue) which comprise the net deferred tax asset at December 31, 2003 and 2002, which is included in other assets (in thousands):

	2003	2002
Deferred tax assets:		
Allowances for loan losses	\$14,793	\$12,008
Accrued expenses	2,075	1,211
Net operating loss and credit carryforwards	100	129
Other	—	35
Total deferred tax assets	16,968	13,383
Deferred tax liabilities:		
Unrealized investment securities gains	3,171	4,886
Premises and equipment	2,626	2,155
Acquired intangible assets	2,344	289
Unrealized gains on cash flow hedges	807	1,664
Other	13	—
Total deferred tax liabilities	8,961	8,994
Net deferred tax asset	\$ 8,007	\$ 4,389

During 2003, 2002 and 2001, United made income tax payments of approximately \$20.5 million, \$19.0 million and \$14.0 million, respectively.

At December 31, 2003, United has remaining loss carryforwards for state purposes of approximately \$2,577,000, which begin to expire in 2020.

**(14) Employee Benefit Plans**

United sponsors 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 \$2,897,000, \$2,206,000 and \$2,191,000 in 2003, 2002, and 2001, respectively.

United provides a defined post-retirement benefit plan for retirement benefits to certain Executive Officers and other key employees and to provide death benefits for their designated beneficiaries. Under this plan, United purchased split-dollar whole life insurance contracts for certain participants. At December 31, 2003 and 2002, the cash surrender value of the insurance contracts was approximately \$18.5 million and \$17.2 million, respectively. Expenses incurred for these benefits were approximately \$624,000, \$579,000 and \$367,000 for 2003, 2002 and 2001, respectively.

**(15) Regulatory Matters**

## Capital Requirements

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

UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, continued

(15) Regulatory Matters, continued

Quantitative measures (as defined) established by regulation to ensure capital adequacy require United and the Banks to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets.

As of December 31, 2003, the Banks were categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must exceed the well capitalized guideline ratios, as set forth in the table, and meet certain other requirements. Management believes that the Banks exceed all well capitalized requirements, and there have been no conditions or events since year-end that would change the status of well capitalized. The regulatory designation of "well capitalized" under prompt corrective action regulations is not applicable to United (a bank holding company). However, Regulation Y defines "well capitalized" for a bank holding company for the purpose of determining eligibility for a streamlined review process for acquisition proposals. For such purposes, "well capitalized" requires United to maintain a minimum Tier I risk-based capital ratio of 6% and a minimum total risk-based capital ratio of 10%.

Minimum amounts required for capital adequacy purposes and to be well capitalized under prompt corrective action provisions are presented below for United and its significant subsidiaries (*in thousands*).

	Regulatory Guidelines		United		Georgia		North Carolina	
	Minimum	Well Capitalized	2003	2002	2003	2002	2003	2002
Risk-based ratios:								
Tier I capital	4.0%	6.0%	8.4%	9.8%	9.2%	10.3%	9.0%	11.8%
Total capital	8.0	10.0	11.9	12.5	11.1	11.5	11.4	13.0
Leverage ratio	3.0	5.0	6.7	7.5	7.3	8.1	6.1	7.7
Tier I capital			\$259,132	\$233,537	\$219,377	\$196,812	\$52,483	\$56,346
Total capital			366,672	298,372	264,243	220,712	66,908	62,342

Cash, Dividend, Loan and Other Restrictions

At December 31, 2003 and 2002, the Banks were required by the Federal Reserve Bank to maintain reserve cash balances of \$35 million and \$52 million, respectively. Federal and state banking regulations place certain restrictions on dividends paid by the Banks to United. At December 31, 2003, the Banks had approximately \$21 million of retained earnings available for distribution to United in the form of dividends.

The Federal Reserve Act requires that extensions of credit by the Banks to certain affiliates, including United, be secured by specific collateral, that the extension of credit to any one affiliate be limited to 10% of capital and surplus (as defined), and that extensions of credit to all such affiliates be limited to 20% of capital and surplus.

(16) Commitments and Contingencies

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

The exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit written is represented by the contractual amount of these instruments. United uses 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.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

**(16) Commitments and Contingencies, continued**

The following table summarizes, as of December 31, 2003 and 2002, the contract amount of off-balance sheet instruments (*in thousands*):

	2003	2002
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$527,988	\$359,279
Commercial letters of credit	12,100	8,186

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. United evaluates 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.

Commercial letters of credit are issued to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party. Those guarantees are primarily issued to local businesses. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Banks hold real estate, certificates of deposit, and other acceptable collateral as security supporting those commitments for which collateral is deemed necessary. The extent of collateral held for those commitments varies.

United, in the normal course of business, is subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. Although it is not possible to predict the outcome of these lawsuits, or the range of any possible loss, management, after consultation with legal counsel, does not anticipate that the ultimate aggregate liability, if any, arising from these lawsuits will have a material adverse effect on United's financial position or results of operations.

**(17) Preferred Stock**

United may issue preferred stock in one or more series, up to a maximum of 10,000,000 shares. Each series shall include the number of shares issued, preferences, special rights and limitations as determined by the Board of Directors. At December 31, 2003 and 2002, there were 55,900 and 172,600, respectively, preferred shares issued and outstanding, which were issued as Series A non-cumulative preferred stock. The dividend rate of the preferred stock is 6% per annum, provided a dividend has been declared for the common shares. The holders of the preferred stock maintain a liquidation preference to the common stockholder. The preferred stock has no voting rights and United may redeem the preferred stock for an amount equal to the stated value plus the accrued dividend.

**(18) Stockholders' Equity**

During 2001, the Board of Directors authorized the repurchase of up to 1,000,000 shares of United's outstanding common stock through the end of 2002 for general corporate purposes. Since that date, the Board of Directors increased the authorization to 1,500,000 shares and extended it to December 31, 2004. As of December 31, 2003, United repurchased a total of 873,528 shares under this authorization.

In 2000, the shareholders approved the 2000 Key Employee Stock Option Plan ("2000 Plan"). Under the 2000 Plan, 980,000 options can be granted for shares of United's common stock at a price equal to the fair market value at the date of grant. The number of shares available for grant is adjusted proportionately with the change in the number of shares outstanding. The general terms of the 2000 plan include a four-year vesting period with an exercisable period not to exceed ten years. As of December 31, 2003, approximately 421,000 options may be granted under the 2000 Plan. United has options outstanding under other plans with terms substantially the same as the 2000 plan. No options are available for grant under any of the other plans.

## UNITED COMMUNITY BANKS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, continued

**(18) Stockholders' Equity, continued**

Certain acquired companies have had stock option plans for their key employees, which had provisions similar to United's plan. Options under acquired plans were converted at the exchange ratio effective for common shares. Options outstanding under the plans are reflected in the following table as being assumed through acquisition. No options are available for grant under any of the acquired plans.

Options outstanding and activity for the years ended December 31, consisted of the following:

	2003		2002		2001	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Beginning of year	1,515,405	\$15.69	1,325,506	\$14.57	1,127,536	\$13.85
Granted	333,500	24.80	319,700	19.87	223,000	17.52
Assumed - through acquisitions	66,185	28.80	—	—	63,068	11.34
Exercised	(471,897)	13.21	(66,687)	10.86	(61,774)	6.85
Cancelled	(154,456)	22.29	(63,114)	18.56	(26,324)	18.50
End of year	<u>1,288,737</u>	<u>\$18.84</u>	<u>1,515,405</u>	<u>\$15.69</u>	<u>1,325,506</u>	<u>\$14.04</u>

The following is a summary of stock options outstanding at December 31, 2003:

Options Outstanding				Options Exercisable	
Shares	Range	Weighted Average Price	Average Remaining Life	Shares	Weighted Average Price
86,054	\$ 5.00 - 10.00	\$ 7.40	2.3 years	86,054	\$ 7.40
183,126	10.01 - 15.00	12.84	4.0 years	183,126	12.84
182,200	15.01 - 17.50	17.49	7.0 years	116,200	17.48
502,857	17.51 - 20.00	19.42	6.8 years	329,157	19.42
334,500	20.01 - 35.00	24.94	9.3 years	9,067	26.69
<u>1,288,737</u>	<u>\$ 5.00 - 35.00</u>	<u>\$18.84</u>	<u>6.8 years</u>	<u>723,604</u>	<u>\$16.11</u>

The table below shows the components of accumulated other comprehensive income at December 31, 2003 and 2002 (*in thousands*):

	2003	2002
Unrealized gains on securities available for sale, net of tax	\$5,889	\$ 8,443
Unrealized gains on derivative financial instruments qualifying as cash flow hedges, net of tax	1,500	2,832
Accumulated other comprehensive income	<u>\$7,389</u>	<u>\$11,275</u>

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

**(19) Fair Value of Financial Instruments**

United uses the following methods to estimate the fair value of financial instruments:

For financial instruments that have quoted market prices, those quotes are used to determine fair value. Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate, are assumed to have a fair value that approximates reported book value, after taking into consideration any applicable credit risk. If no market quotes are available, financial instruments are valued by discounting the expected cash flows using an estimated current market interest rate for the financial instrument. For off-balance sheet derivative instruments, fair value is estimated as the amount that United would receive or pay to terminate the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts.

The short maturity of United's assets and liabilities results in having a significant number of financial instruments whose fair value equals or closely approximates reported balance sheet value. Such financial instruments are reported in the following balance sheet captions: cash and cash equivalents, mortgage loans held for sale, federal funds purchased and repurchase agreements. Fair value of securities available for sale equals the balance sheet value. As of December 31, 2003 and 2002, the fair value of interest rate contracts used for balance sheet management was a receivable of approximately \$2.3 million and \$4.5 million, respectively.

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 the premium or discount on any particular financial instrument that could result from the sale of United's entire holdings. Because no ready 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.

Off balance sheet instruments (commitments to extend credit and standby letters of credit) are generally short-term and at variable rates. Therefore, both the carrying amount and the estimated fair value associated with these instruments are immaterial.

The carrying amount and fair values for other financial instruments included in United's balance sheet at December 31, 2003 and 2002 are as follows (*in thousands*):

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>				
Loans, net	\$2,977,342	\$2,999,057	\$2,350,884	\$2,370,947
<b>Liabilities:</b>				
Deposits	2,857,449	2,890,796	2,385,239	2,398,736
Federal Home Loan Bank advances	635,420	681,915	492,130	510,566
Other borrowings	152,596	157,466	74,911	75,654

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

(20) **Condensed Financial Statements of United Community Banks, Inc. (Parent Only)**

**Statement of Income**  
**For the Years Ended December 31, 2003, 2002 and 2001**

*(in thousands)*

	2003	2002	2001
Dividends from subsidiaries	\$18,000	\$16,750	\$11,570
Other	8,424	2,462	18,202
<b>Total income</b>	<b>26,424</b>	<b>19,212</b>	<b>29,772</b>
Interest	6,717	4,214	3,866
Other	7,684	5,988	23,606
<b>Total expenses</b>	<b>14,401</b>	<b>10,202</b>	<b>27,472</b>
Income tax benefit	2,188	2,651	3,016
<b>Income before equity in undistributed income of subsidiaries</b>	<b>14,211</b>	<b>11,661</b>	<b>5,316</b>
Equity in undistributed income of subsidiaries	23,907	21,119	21,915
<b>Net income</b>	<b>\$38,118</b>	<b>\$32,780</b>	<b>\$27,231</b>

**Balance Sheet**  
**As of December 31, 2003 and 2002**

*(in thousands)*

	2003	2002
<b>Assets</b>		
Cash	\$ 56,105	\$ 13,525
Investment in subsidiaries	362,005	278,320
Subordinated debt issued by subsidiaries	23,000	—
Other assets	17,127	11,893
<b>Total assets</b>	<b>\$458,237</b>	<b>\$303,738</b>
<b>Liabilities and Stockholders' Equity</b>		
Subordinated debentures	\$106,714	\$ 72,114
Other borrowings	46,996	3,911
Other liabilities	5,154	6,134
<b>Total liabilities</b>	<b>158,864</b>	<b>82,159</b>
Stockholders' equity	299,373	221,579
<b>Total liabilities and stockholders' equity</b>	<b>\$458,237</b>	<b>\$303,738</b>

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

**(20) Condensed Financial Statements of United Community Banks, Inc. (Parent Only), continued**

**Statement of Cash Flows**  
**For the Years Ended December 31, 2003, 2002 and 2001**

*(in thousands)*

	2003	2002	2001
<b>Operating activities:</b>			
Net income	\$ 38,118	\$ 32,780	\$ 27,231
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of the subsidiaries	(23,907)	(21,119)	(21,915)
Depreciation, amortization and accretion	882	1,020	1,692
Change in:			
Other assets	(6,832)	942	(1,278)
Other liabilities	(1,816)	430	115
Net cash provided by operating activities	6,445	14,053	5,845
<b>Investing activities:</b>			
Purchase of premises and equipment	(33)	(56)	(2,771)
Investment in subsidiaries	(1,500)	(15,000)	(11)
Purchase of subordinated debt issued by subsidiaries	(23,000)	—	—
Change in cash resulting from business combinations	(8,969)	—	612
Proceeds from sales of investment securities	—	245	—
Purchase of investment securities	(755)	(452)	(150)
Net cash used by investing activities	(34,257)	(15,263)	(2,320)
<b>Financing activities:</b>			
Proceeds from issuance of subordinated debt	35,000	31,096	—
Net change in other borrowings	43,085	(4,866)	6,948
Proceeds from exercise of stock options	6,322	724	423
Retirement of preferred stock	(1,167)	—	(1,148)
Purchase of treasury stock	(6,237)	(7,227)	(5,749)
Cash dividends on common stock	(6,545)	(5,085)	(4,238)
Cash dividends on preferred stock	(66)	(104)	(121)
Net cash provided (used) by financing activities	70,392	14,538	(3,885)
Net change in cash	42,580	13,328	(360)
Cash at beginning of year	13,525	197	557
Cash at end of year	\$ 56,105	\$ 13,525	\$ 197



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

During the past two years, United did not change accountants nor have any disagreements with its accountants on any matters of accounting principles or practices or financial statement disclosure.

**ITEM 9A. CONTROLS AND PROCEDURES**

United's management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the company's disclosure controls and procedures as of December 31, 2003. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosures of that information under the Securities and Exchange Commission's rules and forms and that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted under the Act is recorded, processed, summarized and reported within the time periods specified.

Based on this evaluation, management believes there were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF UNITED.**

The information contained under the headings "Information Regarding Nominees and Other Directors", "Code of Ethical Conduct" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement to be used in connection with the solicitation of proxies for United's 2004 Annual Meeting of Shareholders, to be filed with the SEC, 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 to be used in connection with the solicitation of proxies for United's 2004 Annual Meeting of Shareholders, to be filed with the SEC, is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information contained under the heading "Principal and Management Shareholders" and "Equity Compensation Awards" in the Proxy Statement to be used in connection with the solicitation of proxies for United's 2004 Annual Meeting of Shareholders, to be filed with the SEC, 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 "Certain Relationships and Related Transactions" in the Proxy Statement to be used in connection with the solicitation of proxies for United's 2004 Annual Meeting of Shareholders, to be filed with the SEC, is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The information contained under the heading “Independent Public Accountants” in the Proxy Statement to be used connection with the solicitation of proxies for United’s 2004 Annual Meeting of Shareholders, to be filed with the SEC, is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.**

(a) 1. Financial Statements.

The following consolidated financial statements are located in Item 8 of this Report:

- Report of Independent Certified Public Accountants
- Consolidated Statement of Income — Years ended December 31, 2003, 2002, and 2001
- Consolidated Balance Sheet — December 31, 2003 and 2002
- Consolidated Statement of Changes in Stockholders’ Equity — Years ended December 31, 2003, 2002, and 2001
- Consolidated Statement of Cash Flows — Years ended December 31, 2003, 2002, and 2001
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules.

Schedules to the consolidated financial statements are omitted, as the required information is not applicable

3. Exhibits.

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

Exhibit No.	Exhibit
3.1	Restated Articles of Incorporation of United Community Banks, Inc., (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, File No. 0-21656, filed with the Commission on August 14, 2001).
3.2	Amended and Restated Bylaws of United Community Banks, Inc., dated September 12, 1997 (incorporated herein by reference to Exhibit 3.1 to United Community Banks, Inc.’s Annual Report on Form 10-K, for the year ended December 31, 1997, File No. 0-21656, filed with the Commission on March 27, 1998).
4.1	Junior Subordinated Indenture between United Community Banks, Inc. and The Chase Manhattan Bank, as Trustee, dated as of July 20, 1998 (incorporated herein by reference to Exhibit 4.1 to United Community Banks, Inc.’s Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
4.2	Form of Certificate of Junior Subordinated Debenture (incorporated herein by reference to Exhibit 4.2 to United Community Banks, Inc.’s Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).

Exhibit No.	Exhibit
4.3	Certificate of Trust of United Community Capital Trust (incorporated herein by reference to Exhibit 4.3 to United Community Banks, Inc.'s Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
4.4	Amended and Restated Trust Agreement among United Community Banks, Inc., as depositor, The Chase Manhattan Bank, as Property Trustee, and Chase Manhattan Bank Delaware, as Delaware Trustee, dated as of July 20, 1998 (incorporated herein by reference to Exhibit 4.4 to United Community Banks, Inc.'s Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
4.5	Form of New Capital Security Certificate for United Community Capital Trust (incorporated herein by reference to Exhibit 4.5 to United Community Banks, Inc.'s Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
4.6	Guarantee Agreement between United Community Banks, Inc., as Guarantor, and The Chase Manhattan Bank, as Guarantee Trustee, dated as of July 20, 1998 (incorporated herein by reference to Exhibit 4.6 to United Community Banks, Inc.'s Registration Statement on Form S-4, File No. 333-64911, filed with the Commission on September 30, 1998).
4.7	Registration Rights Agreement dated July 20, 1998 among United Community Banks, Inc., United Community Capital Trust and Wheat First Securities, Inc. as Initial Purchaser of 8.125% Junior Subordinated Deferrable Interest Debentures Due July 15, 2028 (incorporated herein by reference to Exhibit 4.7 to United Community Banks, Inc.'s Registration Statement on Form S-4, File No. 333- 64911, filed with the Commission on September 30, 1998).
4.8	Form of Floating Rate Convertible Subordinated Payable In Kind Debenture due December 31, 2006 (incorporated herein by reference to Exhibit 4.2 to United Community Banks, Inc.'s Registration Statement on Form S-1, File No. 333- 20887, filed with the Commission on January 31, 1997).
4.9	See Exhibits 3.1 and 3.2 for provisions of Restated Articles of Incorporation and Amended and Restated By-Laws, which define the rights of the Shareholders.
4.10	Indenture, dated November 26, 2002, by and between United and Marshall & Ilsley Trust Company, N.A., as Trustee (incorporated herein by reference to Exhibit 4.9 to United Community Banks, Inc.'s Registration Statement on Form S-4/A, File No. 333-103024, filed with the Commission on February 21, 2003).
4.11	Form of 6.75% Subordinated Notes due 2012 (incorporated herein by reference to Exhibit 4.10 to United Community Banks, Inc.'s Registration Statement on Form S-4/A, File No. 333-103024, filed with the Commission on February 21, 2003).
4.12	Indenture, dated September 24, 2003, by and between United and Marshall & Ilsley Trust Company, N.A. as Trustee.
4.13	Form of Subordinated Step-up Notes due 2015.

<u>Exhibit No.</u>	<u>Exhibit</u>
10.1	United Community Banks, Inc.'s 1995 Key Employee Stock Option Plan (incorporated herein by reference to Exhibit 10.3 to United Community Banks, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1994, File No. 0-21656).*
10.2	United Community Banks, Inc.'s Profit Sharing Plan, dated as of March 9, 2001 (incorporated herein by reference to Exhibit 4.3 to United Community Banks, Inc.'s Registration Statement on Form S-8, File No. 333-86876, filed with the Commission on April 24, 2002).*
10.3	Amendment No. 1 to United Community Banks, Inc.'s Profit Sharing Plan, dated as of March 15, 2002 (incorporated herein by reference to Exhibit 4.4 to United Community Banks, Inc.'s Registration Statement on Form S-8, File No. 333-86876, filed with the Commission on April 24, 2002).*
10.4	United Community Banks, Inc.'s 2000 Key Employee Stock Option Plan (incorporated herein by reference to Exhibit 4.3 to United Community Banks, Inc.'s Registration Statement on Form S-8, File No. 333-99849, filed with the Commission on September 19, 2002).*
10.5	Loan and Stock Pledge Agreement dated June 27, 2003, as amended and restated as of October 30, 2003, by and between United Community Banks, Inc. and The Bankers Bank.
10.6	Split-Dollar Agreement between United and Jimmy C. Tallent dated June 1, 1994 (incorporated herein by reference to Exhibit 10.11 to United Community Banks, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1994, File No. 0-21656).*
10.7	Executive Revenue Neutral Retirement Agreement dated March 13, 2000, by and between United Community Banks, Inc. and Jimmy C. Tallent (incorporated herein by reference to Exhibit 10.12 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, File No. 0-21656, filed with the Commission on May 10, 2002).*
10.8	First Amendment to the United Community Banks, Inc. Executive Revenue Neutral Retirement Agreement dated March 13, 2000, for Jimmy C. Tallent dated June 6, 2000, by and between United Community Banks, Inc. and Jimmy C. Tallent (incorporated herein by reference to Exhibit 10.13 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, File No. 0-21656, filed with the Commission on May 10, 2002).*
10.9	Second Amendment to the United Community Banks, Inc Executive Revenue Neutral Retirement Agreement dated March 13, 2000, for Jimmy C. Tallent dated March 13, 2003, by and between United Community Banks, Inc. and Jimmy C. Tallent.*
10.10	Split Dollar Agreement dated March 13, 2000, by and between Towns County Bank and Jimmy C. Tallent (incorporated herein by reference to Exhibit 10.14 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, File No. 0-21656, filed with the Commission on May 10, 2002).*

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<u>Exhibit No.</u>	<u>Exhibit</u>
10.11	Split Dollar Agreement dated March 13, 2000, by and between Carolina Community Bank and Jimmy C. Tallent (incorporated herein by reference to Exhibit 10.15 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, File No. 0-21656, filed with the Commission on May 10, 2002).*
10.12	Executive Revenue Neutral Retirement Agreement dated August 2, 1999, by and between Peoples Bank of Fannin County and Thomas C. Gilliland (incorporated herein by reference to Exhibit 10.16 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, File No. 0-21656, filed with the Commission on May 10, 2002).*
10.13	First Amendment to the Peoples Bank of Fannin County Executive Revenue Neutral Retirement Agreement dated August 2, 1999, for Thomas C. Gilliland dated June 6, 2000, by and between Peoples Bank of Fannin County and Thomas C. Gilliland (incorporated herein by reference to Exhibit 10.17 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, File No. 0-21656, filed with the Commission on May 10, 2002).*
10.14	Second Amendment to the Peoples Bank of Fannin County Executive Revenue Neutral Retirement Agreement dated August 2, 1999, for Thomas C. Gilliland dated March 13, 2003, by and between United Community Bank and Thomas C. Gilliland.*
10.15	Split Dollar Agreement dated March 2, 2000, by and between Peoples Bank of Fannin County and Thomas C. Gilliland (incorporated herein by reference to Exhibit 10.18 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, File No. 0-21656, filed with the Commission on May 10, 2002).*
10.16	Form of Change of Control Severance Agreement by and between United Community Banks, Inc. and Jimmy C. Tallent, Thomas C. Gilliland and Ray K. Williams (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, File No. 0-21656, filed with the Commission on August 14, 2001).*
10.17	Change of Control Severance Agreement by and between United Community Banks, Inc. and Guy W. Freeman (incorporated herein by reference to Exhibit 10.2 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, File No. 0-21656, filed with the Commission on August 14, 2001).*
10.18	Agreement and Plan of Reorganization between United Community Banks, Inc. and Peoples Bancorp, Inc., dated as of June 29, 2001 (incorporated herein by reference to Exhibit 2.1 to United Community Banks, Inc.'s Registration Statement on Form S-4, File No. 333-69656, filed with the Commission on September 19, 2001, as amended).

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<b>Exhibit No.</b>	<b>Exhibit</b>
10.19	Amendment to Agreement and Plan of Reorganization between United Community Banks, Inc. and Peoples Bancorp, Inc., dated as of June 29, 2001 (incorporated herein by reference to Exhibit 2.2 to United Community Banks, Inc.'s Registration Statement on Form S-4, File No. 333-69656, filed with the Commission on September 19, 2001, as amended).
10.20	Change of Control Severance Agreement by and between United Community Banks, Inc. and Rex S. Schuette (incorporated herein by reference to Exhibit 10.11 to United Community Banks, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001, File No. 0-21656, filed with the Commission on March 15, 2002).*
10.21	Branch Purchase and Assumption Agreement between United Community Bank and RBC Centura Bank, dated as of August 13, 2003 (incorporated herein by reference to Exhibit 10.1 to United Community Banks, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, File No. 0-21656, filed with the commission on November 13, 2003).
10.22	Agreement and Plan of Reorganization by and between United Community Banks, Inc. and First Central Bancshares, Inc., dated as of December 23, 2002 (incorporated herein by reference to Exhibit 2.1 to United Community Banks, Inc.'s Registration Statement on Form S-4, File No. 333-102663, filed with the Commission on January 23, 2003).
10.23	Agreement and Plan of Reorganization by and between United Community Banks, Inc. and First Georgia Holdings, Inc., dated as of January 23, 2003 (incorporated herein by reference to Exhibit 2.1 to United Community Banks, Inc.'s Registration Statement on Form S-4/A, File No. 333-102663, filed with the Commission on February 6, 2003).
10.24	Amendment to Agreement and Plan of Reorganization by and between United Community Banks, Inc. and First Georgia Holdings, Inc., dated as of February 12, 2003 (incorporated herein by reference to Exhibit 2.2 to United Community Banks, Inc.'s Registration Statement on Form S-4/A, File No. 333-103024, filed with the Commission on February 21, 2003).
10.25	Credit Agreement dated August 28, 2003, by and between United Community Banks, Inc., Marshall & Ilsley Bank and Compass Bank.
14	Code of Ethical Conduct
21	Subsidiaries of United
23	Consent of Certified Public Accountants
24	Power of Attorney of certain officers and directors of United (included on Signature Page)
31.1	Certification by Jimmy C. Tallent, President and Chief Executive Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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<u>Exhibit No.</u>	<u>Exhibit</u>
31.2	Certification by Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* 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) Reports on Form 8-K

A current report on Form 8-K dated October 28, 2003, was filed with the Securities Exchange Commission under Item 12 "Results of Operations and Financial Condition" of such form, furnishing materials for the third quarter 2003 earnings announcement to be conducted by Jimmy C. Tallent, President and Chief Executive Officer and Rex S Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc. on October 28, 2003.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(a) 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 8th of March, 2004.

**UNITED COMMUNITY BANKS, INC.**  
(Registrant)

By: */s/ Jimmy C. Tallent*

\_\_\_\_\_  
Jimmy C. Tallent  
President and Chief Executive Officer  
(Principal Executive Officer)

By: */s/ Rex S. Schuette*

\_\_\_\_\_  
Rex S. Schuette  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

By: */s/ Alan H. Kumler*

\_\_\_\_\_  
Alan H. Kumler  
Senior Vice President, Controller and Chief Accounting Officer  
(Principal Accounting Officer)

**POWER OF ATTORNEY AND SIGNATURES**

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of United in the capacities set forth and on the 8th day of March, 2004.

*/s/ Jimmy C. Tallent*

\_\_\_\_\_  
Jimmy C. Tallent  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

*/s/ Robert L. Head, Jr.*

\_\_\_\_\_  
Robert L. Head, Jr.  
Chairman of the Board

*/s/ W. C. Nelson, Jr.*

\_\_\_\_\_  
W. C. Nelson, Jr.  
Vice Chairman of the Board



*/s/ A. William Bennett*

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A. William Bennett  
Director

*/s/ Robert Blalock*

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Robert Blalock  
Director

*/s/ Guy W. Freeman*

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Guy W. Freeman  
Director

*/s/ Thomas C. Gilliland*

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Thomas C. Gilliland  
Director

*/s/ Charles E. Hill*

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Charles E. Hill  
Director

*/s/ Hoyt O. Holloway*

---

Hoyt O. Holloway  
Director

*/s/ Clarence W. Mason, Sr.*

---

Clarence W. Mason, Sr.  
Director

*/s/ Charles E. Parks*

---

Charles E. Parks  
Director

*/s/ Tim Wallis*

---

Tim Wallis  
Director

**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
4.12	Indenture, dated September 24, 2003, by and between United and Marshall & Ilsley Trust Company, N.A. as Trustee.
4.13	Form of Subordinated Step-up Notes due 2015
10.5	Loan and Stock Pledge Agreement dated June 27, 2003, as amended and restated as of October 30, 2003, by and between United Community Banks, Inc. and The Bankers Bank.
10.25	Credit Agreement dated August 28, 2003, by and between United Community Banks, Inc., Marshall & Ilsley Bank and Compass Bank.
14	Code of Ethical Conduct
21	Subsidiaries of United
23	Consent of Certified Public Accountants
31.1	Certification by Jimmy C. Tallent, President and Chief Executive Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc., as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

=====  
Execution Copy

UNITED COMMUNITY BANKS, INC.,  
AS ISSUER

AND

MARSHALL & ILSLEY TRUST COMPANY N.A.,  
AS TRUSTEE

-----  
INDENTURE

DATED AS OF SEPTEMBER 24, 2003

-----  
UP TO \$35,000,000

SUBORDINATED STEP-UP NOTES DUE 2015  
=====

CROSS REFERENCE TABLE\*

Trust Indenture Act Section -----	Indenture Section -----
310(a)(1).....	6.10
(a)(2).....	6.10
(a)(3).....	N.A.
(a)(4).....	N.A.
(a)(5).....	6.10
(b).....	6.10
(c).....	N.A.
311(a).....	6.11
(b).....	6.11
(c).....	N.A.
312(a).....	2.07
(b).....	10.03
(c).....	10.03
313 (a).....	6.06
(b)(1).....	N.A.
(b)(2).....	6.06, 6.07
(c).....	6.06, 10.02
(d).....	6.06
314(a).....	3.03
(b).....	N.A.
(c)(1).....	10.04
(c)(2).....	10.04
(c)(3).....	N.A.
(d).....	N.A.
(e).....	10.05
(f).....	N.A.
315(a).....	6.01
(b).....	10.02
(c).....	6.01
(d).....	6.01
(e).....	5.11
316(a)(last sentence).....	2.10
(a)(1)(A).....	5.05
(a)(1)(B).....	5.04
(a)(2).....	N.A.
(b).....	5.07
(c).....	2.13
317(a)(1).....	5.08
(a)(2).....	5.09
(b).....	2.05

CROSS REFERENCE TABLE\*  
(CONTINUED)

Trust Indenture Act Section -----	Indenture Section -----
318(a).....	10.01
(b).....	N.A.
(c).....	10.01

-----  
"N.A." means "Not Applicable."

\*This Cross Reference Table is not part of the Indenture.

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THIS INDENTURE, dated as of September 24, 2003, is by and among UNITED COMMUNITY BANKS, INC., a Georgia corporation (the "Company"), and MARSHALL & ILSLEY TRUST COMPANY, N.A., a national banking association, as trustee (the "Trustee").

The Company and the Trustee hereby agree as follows for the benefit of each other and for the equal and ratable benefit of the holders (the "Holders") of (i) the Notes (as defined in Section 1.01 below) initially issued hereunder on the Closing Date (the "Original Notes"), and (ii) any Additional Notes (as defined in Section 1.01 below) that may be issued on any Issue Date (all such Notes in clauses (i) and (ii) being referred to collectively as the "Notes"):

ARTICLE I  
DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.01. DEFINITIONS.

"Additional Notes" means any Subordinated Step-Up Notes due 2015, bearing interest at a rate of 6.25% per annum from the applicable Issue Date until September 30, 2010 and at a rate of 7.50% per annum thereafter until maturity, issued under the terms of this Indenture subsequent to the Closing Date, which shall be of the same series as, and have terms identical to, the Notes issued as of the Closing Date.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided, however, that beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control. For purposes of this definition, the terms "affiliated," "controlling," "controlled by" and "under common control with" shall have correlative meanings.

"Agent" means any Registrar, Paying Agent or co-registrar or any successor thereto.

"Bankruptcy Law" means Title 11, U.S. Code or any other applicable federal or state bankruptcy, insolvency or similar law for the relief of debtors, and any federal or state law pertaining to the appointment of a receiver, conservator, liquidator, assignee, custodian, trustee or similar official.

"Beneficial Owner" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as such term is used in Section 13(d)(3) of the Exchange Act), such "person" shall be deemed to have beneficial ownership of all securities that such "person" has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition.

"Board of Directors" means the board of directors (or other body having similar management functions) or any committee thereof duly authorized to act on behalf of such board. Except as expressly forth herein, any reference to the Board of Directors shall be a reference to the Board of Directors of the Company.

"Board Resolution" means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means any day other than a Legal Holiday.

"Capital Lease Obligation" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

"Capital Stock" means:

- (i) in the case of a corporation, corporate stock;
- (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (iii) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and
- (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Certificated Securities" means Notes that are in the form of the Notes attached hereto as Exhibit A, and that do not include the information called for by footnotes 1 and 5 thereof.

"Claim" means any claim arising from rescission of the purchase or sale of the Notes, for damages arising from the purchase or sale of the Notes or for reimbursement or contribution on account of such a claim.

"Closing Date" means the date of this Indenture.

"Continuing Directors" means, as of any date of determination, any member of the Board of Directors of the Company who (i) was a member of such Board of Directors as of the Closing Date; or (ii) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

"Covenant Defeasance" has the meaning ascribed in Section 7.03 of this Indenture.

"Corporate Trust Office" shall be the address of the Trustee specified in Section 3.02 hereof or such other address as to which the Trustee gives notice to the Company.

"Currency Agreement" means in respect of a Person any foreign exchange contract, currency swap agreement, currency futures or options agreements or other similar agreement to which such Person is a party or beneficiary.

"Default" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"Depository" means, with respect to the Notes issuable or issued in whole or in part in global form, the Person specified in Section 2.04 hereof as the Depository with respect to the Notes, until a successor shall have been appointed and become such pursuant to the applicable provisions of this Indenture and, thereafter, "Depository" shall mean or include such successor.

"DTC" has the meaning ascribed in Section 2.04 of this Indenture.

"Equity Interests" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"Event of Default" has the meaning ascribed in Section 5.01 of this Indenture.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and all rules and regulations of the SEC promulgated thereunder.

"Existing Indebtedness" means Indebtedness of the Company in existence on the Closing Date, until such amounts are repaid.

"Financing Entity" means any trust (or a trustee of a trust), partnership, limited liability company, or other Affiliate of the Company that is a financing vehicle.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect from time to time.

"Global Note" means a Note that contains the paragraph referred to in footnote 1 and the additional schedule referred to in footnote 5 to the form of the Note attached hereto as Exhibit A.

"Government Securities" means direct obligations of, or obligations guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States is pledged.

"Guarantee" means a guarantee or other assurance of Indebtedness of another Person, whether as an obligor, guarantor or otherwise, other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, and in any manner including, by way of a pledge of assets or other security or collateral or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness.

"Hedging Obligations" means, with respect to any Person, the obligations of such Person under Currency Agreements and Interest Rate Agreements.

"Holder," "Noteholder" and "Holder of Note" mean a Person in whose name a Note is registered.

"incur" shall mean, with respect to any Indebtedness or other Obligation, to directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to such Indebtedness or other Obligation.

"Indebtedness" means, with respect to any specified Person, any Obligations of such Person in respect of:

- (i) borrowed money;
- (ii) debt securities, bonds, notes, debentures or similar instruments, letters of credit, securities purchase facilities and reimbursement agreements in respect thereof;
- (iii) banker's acceptances;
- (iv) Capital Lease Obligations;
- (v) the deferred and unpaid balance of the purchase price of any property, all obligations of that Person under any conditional sale or title retention agreement, except any such balance that constitutes an accrued expense or trade payable; or
- (vi) any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by such Person of any Indebtedness of any other Person. The incurrence of Indebtedness Guaranteed by the specified Person shall, for purposes of this Indenture, be the incurrence of Indebtedness by such specified Person.

The amount of any Indebtedness outstanding as of any date shall be:

- (i) the accreted value thereof, in the case of any Indebtedness issued with original issue discount;
- (ii) the principal amount thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness, and premium, if any; and
- (iii) the amount of Indebtedness of such specified Person arising by reason of a Guarantee of Indebtedness shall equal the outstanding principal amount of the Guaranteed Indebtedness.

"Indenture" means this Indenture, as amended, modified or supplemented from time to time.

"Interest Rate Agreement" means in respect of a Person any interest rate swap agreement, interest rate cap agreement, interest rate floor agreement, interest rate futures or option contracts, or other financial agreement or arrangement designed to protect such Person against fluctuations in interest rates.

"Issue Date," with respect to any Notes, means the date on which such Notes are originally issued.

"Junior Subordinated Debt" means the Company's Trust Preferred Securities Guarantees and the related Junior Subordinated Debentures, any Indebtedness that is subordinate to or on a parity with any of the foregoing Indebtedness, and any Indebtedness that is by its terms subordinate to the Indebtedness incurred under this Indenture.

"Junior Subordinated Debentures" means the Company's outstanding 8.125% junior subordinated deferrable interest debentures due 2028, 11.295% junior subordinated notes due 2030, and 10.60% junior subordinated deferrable interest debentures due 2030.

"Legal Defeasance" has the meaning ascribed in Section 7.02 of this Indenture.

"Legal Holiday" means a Saturday, a Sunday or a day on which banking institutions in the City of New York or in the city in which the principal corporate trust office of the Trustee or at a place of payment are authorized by law, regulation or executive order to remain closed. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in such asset, and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"Note Custodian" means the Trustee, as custodian with respect to the Notes in global form, or any successor entity thereto.

"Notes" means any Subordinated Step-Up Notes due 2015 bearing interest at a rate of 6.25% per annum from the applicable Issue Date until September 30, 2010 and at a rate of 7.50% per annum thereafter until maturity.

"Obligations" means any obligation, direct or indirect, contingent or non-contingent, matured or unmatured, to pay principal, interest, penalties, fees, indemnifications, reimbursements, damages, accounts payable and other liabilities of any kind whatsoever, including any guarantee by the Company for the repayment of Indebtedness, whether or not evidenced by bonds, debentures, notes or other written instruments, and any deferred obligation for the payment of the purchase price of property or assets.

"Officer" means, with respect to any Person, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President whose principal duties relate to financial matters, the Treasurer or the Secretary of such Person.

"Officers' Certificate" means a certificate signed on behalf of a Person by two Officers of such Person, one of whom must be the principal executive officer, the principal financial officer or the principal accounting officer of such Person, which meets the applicable requirements of Section 10.04 hereof.

"Opinion of Counsel" means a written opinion from legal counsel that meets the applicable requirements of Section 10.04 hereof. Such counsel may be an employee of or counsel to the Company or any Subsidiary of the Company.

"Original Notes" means any Notes issued as of the Closing Date.

"Paying Agent" has the meaning ascribed in Section 2.04 of this Indenture.

"Payment Blockage Notice" has the meaning ascribed in Section 9.03 of this Indenture.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, limited liability company, unincorporated organization or government or agency or political subdivision thereof (including any subdivision or ongoing business of any such entity or substantially all of the assets of any such entity, subdivision or business).

"Redemption Date" has the meaning ascribed to it in Section 2.16(a) of this Indenture.

"Redemption Price" has the meaning ascribed to it in Section 2.16(a) of this Indenture.

"Registrar" has the meaning ascribed in Section 2.04 of this Indenture.

"Regulation S Global Note" has the meaning ascribed in Section 2.07 of this Indenture.

"Representative" means the indenture trustee or other trustee, agent or representative in respect of any Indebtedness; provided, however, that if, and for so long as, any Indebtedness lacks such a representative, then the Representative for such Indebtedness shall at all times constitute the holders of a majority in outstanding principal amount of such Indebtedness in respect of any Indebtedness.

"Responsible Officer," when used with respect to the Trustee, means any officer within the corporate trust administration department of the Trustee (or any successor group of the Trustee) or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers, and also means, with respect to a particular corporate trust matter, any other employee to whom such matter is referred because of his knowledge of, and familiarity with, the particular subject and who shall have direct responsibility for the administration of this Indenture.

"SEC" means the United States Securities and Exchange Commission (or any successor federal regulatory body having similar jurisdiction).

"Securities Act" means the Securities Act of 1933, as amended, and all rules and regulations of the SEC promulgated thereunder.

"Senior Debt" means

(i) any of the Company's Indebtedness, including all Indebtedness outstanding under the \$40 million line of credit from The Bankers Bank dated as of June 25, 2002,

(ii) any of the Company's Indebtedness or other Obligations with respect to commodity contracts, interest rate and currency swap agreements, cap, floor and collar agreements, currency spot and

forward contracts, and other similar agreements or arrangements designed to protect against fluctuations in currency exchange or interest rates,

(iii) any guarantees, endorsements (other than by endorsement of negotiable instruments for collection in the ordinary course of business) or other similar Obligations in respect of Obligations of others of a type described in clauses (i), (ii) and (iii), whether or not such Obligation is classified as a liability on the balance sheet prepared in accordance with GAAP, and

(iv) Obligations owed to general creditors of the Company,

in each case whether outstanding on the date of execution of this Indenture or thereafter incurred, other than Subordinated Debt and Junior Subordinated Debt, including the Company's Trust Preferred Securities Guarantees and the related Junior Subordinated Debentures.

"Significant Subsidiary" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation was in effect on the Closing Date.

"Stated Maturity" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which such payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"Subordinated Debt" means any Debt of the Company (whether outstanding on the Closing Date or thereafter incurred) that is subordinate or junior in right of payment to Senior Debt pursuant to a written agreement to that effect, including the Company's outstanding 6.75% Subordinated Notes due 2012.

"Subsidiary" means, with respect to any Person:

(i) any corporation, association or other business entity of which more than 50% of the Voting Stock is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(ii) any partnership (A) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person, or (B) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-77bbbb), as in effect on the date on which this Indenture is qualified under the TIA, except as provided by Section 8.03 hereof.

"Transfer Restricted Securities" means securities that bear or are required to bear the legend set forth in Section 2.07 hereof.

"Trustee" means the party named as such above until a successor replaces it in accordance with the applicable provisions of this Indenture and thereafter means the successor serving hereunder.

"Trust Preferred Securities Guarantees" shall mean the guarantees issued by the Company in connection with the 8.125% capital securities due 2028 issued by United Community Capital Trust, the 10.60% preferred securities due 2030 issued by United Community Statutory Trust I, the 11.295% capital securities due 2030 issued by United Community Capital Trust II, and any guarantee now or hereafter entered into by the Company in respect of any preferred or preference stock that is by its terms subordinated to or on a parity with the Junior Subordinated Debt.

"Voting Stock" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"Wholly Owned Subsidiary" of any Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which (other than directors' qualifying shares) shall at the time be owned by such Person and/or by one or more Wholly Owned Subsidiaries of such Person.

SECTION 1.02 INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

- (i) "indenture securities" means the Notes;
- (ii) "indenture security holder" means a Holder of a Note;
- (iii) "indenture to be qualified" means this Indenture;
- (iv) "indenture trustee" or "institutional trustee" means the Trustee; and
- (v) "obligors" on the Notes means the Company and any successor obligor upon the Notes and not otherwise defined herein.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule under the TIA and not otherwise defined herein have the meanings so assigned to them.

SECTION 1.03 RULES OF CONSTRUCTION.

Unless the context otherwise requires:

- (i) a term has the meaning assigned to it;
- (ii) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;
- (iii) "or" is not exclusive;
- (iv) words in the singular include the plural, and in the plural include the singular;
- (v) provisions apply to successive events and transactions;
- (vi) references to sections of or rules under the Securities Act shall be deemed to include substitute, replacement or successor sections or rules adopted by the SEC from time to time; and
- (vii) the terms "include," "included," and "including," and words of similar meaning, shall be deemed to be without limitation, whether by enumeration or otherwise.

ARTICLE II  
THE NOTES

SECTION 2.01 AMOUNT OF NOTES; ABILITY TO RE-OPEN SERIES.

The aggregate principal amount of Notes that may be authenticated and delivered under this Indenture shall be limited to \$35,000,000. The series of Notes issued at the Closing Date, which shall be the only series of Notes authorized for issuance under this Indenture, may be re-opened at any time and from time to time, and Additional Notes may be issued under, and as part of, that series.

With respect to any Additional Notes issued after the Closing Date (except for Notes authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Notes pursuant to Sections 2.07, 2.08, 2.09 or 2.11 of this Indenture), there shall be:

(i) established in or pursuant to a Board Resolution; and

(ii) (A) set forth or determined in the manner provided in an Officers' Certificate; or (B) established in one or more indentures supplemental hereto, prior to the issuance of such Additional Notes:

(1) the aggregate principal amount of such Additional Notes that may be authenticated and delivered under this Indenture, which, together with any other Notes outstanding under this Indenture, shall be limited to a total of \$35,000,000 in aggregate principal amount;

(2) the issue price and issuance date of such Additional Notes, including the date from which interest on such Additional Notes shall accrue; and

(3) if applicable, that such Additional Notes shall be issuable in whole or in part in the form of one or more Global Notes and, in such case, the respective depositaries for such Global Notes, the form of any legend or legends which shall be borne by such Global Notes in addition to or in lieu of those set forth in Exhibit A hereto and any circumstances in addition to or in lieu of those set forth in Section 2.07 hereof in which any such Global Note may be exchanged in whole or in part for Additional Notes registered, or any transfer of such Global Note in whole or in part may be registered, in the name or names of Persons other than the depositary for such Global Note or a nominee thereof.

If any of the terms of any Additional Notes are established by action taken pursuant to a Board Resolution, such Board Resolution shall be delivered to the Trustee at or prior to the delivery of the Officers' Certificate or the indenture supplemental hereto setting forth the terms of the Additional Notes.

#### SECTION 2.02 FORM AND DATING.

The Original Notes (and any Additional Notes) and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A hereto, the terms of which are incorporated in and made part of this Indenture. The Notes may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Company is subject or usage. Each Note shall be dated the date of its authentication. The Notes shall be issued initially in denominations of \$1,000 and integral multiples thereof. Each Global Note shall represent such of the outstanding Notes as shall be specified therein and each shall provide that it shall represent the aggregate amount of outstanding Notes from time to time endorsed thereon and that the aggregate amount of outstanding Notes represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and other transactions. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the amount of outstanding Notes represented thereby shall be made by the Trustee or the Note Custodian, at the direction of the Trustee, in accordance with instructions given by the Holder thereof as required by Section 2.07 hereof.

#### SECTION 2.03 EXECUTION AND AUTHENTICATION.

Two Officers of the Company shall sign the Notes by manual or facsimile signature. If an Officer whose signature is on a Note no longer holds that office at the time a Note is authenticated, the Note shall nevertheless be valid. A Note shall not be valid until authenticated by the manual signature of the Trustee. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture. The form of the Trustee's certificate of authentication to be borne by the Notes shall be substantially as set forth in Exhibit A attached hereto. The Trustee shall, upon a written order of the Company signed by two Officers of the Company directing the Trustee to authenticate the Notes and certifying that all conditions precedent to the issuance of the Notes contained herein have been complied with, authenticate:

(i) Notes for original issue on the Closing Date up to the aggregate principal amount of \$35,000,000; and



(ii) subject to the terms of this Indenture, Additional Notes in an aggregate principal amount that, together with the aggregate principal amount of all other Notes then outstanding, shall not exceed \$35,000,000.

Each Note shall be dated the date of its authentication. The Trustee may appoint an authenticating agent acceptable to the Company to authenticate the Notes. Unless limited by the terms of such appointment, an authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company or Affiliates of the Company.

#### SECTION 2.04 REGISTRAR AND PAYING AGENT.

The Company shall maintain (i) an office or agency where Notes may be presented for registration of transfer or for exchange (a "Registrar"); and (ii) an office or agency where Notes may be presented for payment (a "Paying Agent"). The Registrar shall keep a register of the Notes and of their transfer and exchange. The Company may appoint one or more co-registrars and one or more additional paying agents. The term "Registrar" includes any co-registrar and the term "Paying Agent" includes any additional paying agent. The Company may change any Paying Agent, Registrar or co-registrar without prior notice to any Holder. The Company or any of its Subsidiaries may act as Paying Agent, Registrar or co-registrar. The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture, which shall incorporate the provisions of the TIA. Such agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall notify the Trustee of the name and address of any such Agent. If the Company fails to maintain a Registrar or Paying Agent, or fails to give the foregoing notice, the Trustee shall act as such, and shall be entitled to appropriate compensation in accordance with Section 6.07 hereof. The Company initially appoints The Depository Trust Company ("DTC") to act as Depository with respect to the Global Notes. The Company initially appoints the Trustee to act as the Registrar and Paying Agent and to act as Note Custodian with respect to the Global Notes.

#### SECTION 2.05 PAYING AGENT TO HOLD MONEY IN TRUST.

The Company will require each Paying Agent other than the Trustee to agree in writing that the Paying Agent shall hold in trust for the benefit of the Holders or the Trustee all money held by the Paying Agent for the payment of principal of, premium, if any, or interest, if any, on the Notes, and will promptly notify the Trustee of any Default by the Company in making any such payment. While any such Default continues, the Trustee may require a Paying Agent to pay all such money held by it to the Trustee. The Company at any time may require a Paying Agent to pay all such money held by it to the Trustee and to account for any funds disbursed by it prior to such time. Upon payment over to the Trustee, the Paying Agent (if other than the Company or a Subsidiary) shall have no further liability for the money delivered to the Trustee. If the Company or a Subsidiary acts as Paying Agent, such Person shall segregate and hold in a separate trust fund for the benefit of the Holders all money held by such Person as Paying Agent. Upon any bankruptcy or reorganization proceedings relating to the Company, the Trustee shall serve as Paying Agent.

#### SECTION 2.06 HOLDER LISTS.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of all Holders and shall otherwise comply with TIA Section 312(a). If the Trustee is not the Registrar, the Company shall furnish to the Trustee, at least seven Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of the Holders, including the aggregate principal amount of Notes held by each thereof, and the Company shall otherwise comply with TIA Section 312(a).

#### SECTION 2.07 TRANSFER AND EXCHANGE.

(a) Transfer and Exchange of Certificated Securities. When Certificated Securities are presented by a Holder to the Registrar with a request (i) to register the transfer of the Certificated Securities; or (ii) to exchange such Certificated Securities for an equal principal amount of Certificated Securities of other authorized

denominations, then the Registrar shall register the transfer or make the exchange as requested if its requirements for such transactions are met; provided, however, that the Certificated Securities presented or surrendered for register of transfer or exchange:

(A) shall be duly endorsed or accompanied by a written instruction of transfer in form satisfactory to the Registrar duly executed by such Holder or by his attorney, duly authorized in writing; and

(B) in the case of a Certificated Security that is a Transfer Restricted Security, such request shall be accompanied by the following additional information and documents, as applicable:

(1) if such Transfer Restricted Security is being delivered to the Registrar by a Holder for registration in the name of such Holder, without transfer, a certification to that effect from such Holder (in substantially the form of Exhibit B attached hereto); or

(2) if such Transfer Restricted Security is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A under the Securities Act or pursuant to an exemption from registration in accordance with Rule 144 under the Securities Act, or pursuant to an exemption from registration in accordance with Rule 144 or Rule 904 under the Securities Act or pursuant to an effective registration statement under the Securities Act, a certification to that effect from such Holder (in substantially the form of Exhibit B (or, if pursuant to Rule 904, Exhibit C) attached hereto).

(b) Transfer of a Certificated Security for a Beneficial Interest in a Global Note. A Certificated Security may not be exchanged for a beneficial interest in a Global Note except upon satisfaction of the requirements set forth below. Upon receipt by the Trustee of a Certificated Security, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Trustee, together with:

(i) if such Certificated Security is a Transfer Restricted Security, a certification from the Holder thereof (in substantially the form of Exhibit B hereto) to the effect that such Certificated Security is being transferred by such Holder either:

(A) to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A under the Securities Act, or

(B) based upon an Opinion of Counsel from such Holder or the transferee reasonably acceptable to the Company, the Trustee and to the Registrar, pursuant to another exemption from the registration requirements of the Securities Act provided by Rule 144 under the Securities Act; and

(ii) whether or not such Certificated Security is a Transfer Restricted Security, written instructions from the Holder thereof directing the Trustee to make, or to direct the Note Custodian to make, an endorsement on the Global Note to reflect an increase in the aggregate principal amount of the Notes represented by the Global Note, in which case the Trustee shall cancel such Certificated Security in accordance with Section 2.12 hereof and cause, or direct the Note Custodian to cause, in accordance with the standing instructions and procedures existing between the Depositary and the Note Custodian, the aggregate principal amount of Notes represented by the Global Note to be increased accordingly. If no Global Notes are then outstanding, then the Company shall issue and, upon receipt of an authentication order in accordance with Section 2.03 hereof, the Trustee shall authenticate, a new Global Note in the appropriate principal amount.

(c) Transfer and Exchange of Global Notes. The transfer and exchange of Global Notes or beneficial interests therein shall be effected through the Depositary, in accordance with this Indenture and the procedures of the Depositary therefor, which shall include restrictions on transfer comparable to those set forth herein to the extent required by the Securities Act. Notwithstanding any other provision of this Indenture (other than the provisions set forth in subsection (e) of this Section 2.07), a Global Note may not be transferred as a whole except by the

Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

(d) Transfer of a Beneficial Interest in a Global Note for a Certificated Security.

(i) Any Person having a beneficial interest in a Global Note may upon request exchange such beneficial interest for a Certificated Security. Upon receipt by the Trustee of written instructions or such other form of instructions as is customary for the Depositary, from the Depositary or its nominee on behalf of any Person having a beneficial interest in a Global Note, and, in the case of a Transfer Restricted Security, the following additional information and documents (all of which may be submitted by facsimile):

(A) if such beneficial interest is being transferred to the Person designated by the Depositary as being the beneficial owner, a certification to that effect; or

(B) if such beneficial interest is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act) in accordance with Rule 144A under the Securities Act or pursuant to an exemption from registration in accordance with Rule 144 or Rule 904 under the Securities Act or pursuant to an effective registration statement under the Securities Act, a certification to that effect from the transferor (in substantially the form of Exhibit B (or, if pursuant to Rule 904, Exhibit C) attached hereto);

in which case the Trustee or the Note Custodian, at the direction of the Trustee, shall, in accordance with the standing instructions and procedures existing between the Depositary and the Note Custodian, cause the aggregate principal amount of Global Notes to be reduced accordingly and, following such reduction, the Company shall execute and the Trustee shall authenticate and deliver to the transferee, a Certificated Security in the appropriate principal amount.

(ii) Certificated Securities issued in exchange for a beneficial interest in a Global Note pursuant to this Section 2.07(d) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Certificated Securities to the Persons in whose names such Notes are so registered.

(e) Authentication of Certificated Securities in Absence of Depositary. If at any time:

(i) the Depositary for the Notes notifies the Company that the Depositary is unwilling or unable to continue as Depositary for the Global Notes or has ceased to be a clearing agency registered under the Exchange Act and, in either case, a successor Depositary for the Global Notes is not appointed by the Company within 90 days after delivery of such notice; or

(ii) the Company, at its sole discretion, notifies the Trustee in writing it elects to cause the issuance of Certificated Securities under this Indenture,

THEN THE COMPANY SHALL EXECUTE, AND THE TRUSTEE SHALL, UPON RECEIPT OF AN AUTHENTICATION ORDER IN ACCORDANCE WITH SECTION 2.03 HEREOF, AUTHENTICATE AND DELIVER, CERTIFICATED SECURITIES IN AN AGGREGATE PRINCIPAL AMOUNT EQUAL TO THE PRINCIPAL AMOUNT OF THE GLOBAL NOTES IN EXCHANGE FOR SUCH GLOBAL NOTES.

(f) Legends.

(i) Except as permitted by the following paragraphs (ii), (iii) and (iv), each Note certificate evidencing Global Notes and Certificated Securities (and all Notes issued in exchange therefor or substitution thereof) shall bear legends in substantially the following form:

"THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER:

(A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB") OR (2) IT HAS ACQUIRED THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT;

(B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (1) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S OF THE SECURITIES ACT, (4) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (5) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY), OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION;

(C) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; AND

(D) ACKNOWLEDGES AND AGREES THAT THE COMPANY AND THE TRUSTEE HAVE RESERVED THE RIGHT, PRIOR TO ANY SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER (I) PURSUANT TO CLAUSE (B)(3) PRIOR TO THE END OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, PURSUANT TO RULE 904 OF REGULATION S, OR (II) PURSUANT TO CLAUSE (B)(4) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE UNDER RULE 144, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THIS NOTE BE COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF A HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING."

(ii) Each Note sold in reliance on Regulation S of the Securities Act shall bear the following additional legend on the face thereof:

"PRIOR TO THE EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), THIS

SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A PERSON REASONABLY BELIEVED TO BE A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND THE INDENTURE REFERRED TO HEREIN."

(iii) Each Global Note (other than a Regulation S Global Note, which shall, subject to applicable procedures, bear a substantially similar legend with respect to the rights of Euroclear System or Clearstream Banking, S.A., as applicable) shall also bear the following legend on the face thereof:

"UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY, OR BY ANY SUCH NOMINEE OF THE DEPOSITARY, OR BY THE DEPOSITARY OR NOMINEE OF A SUCCESSOR DEPOSITARY, OR ANY NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY. TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF CEDE & CO., OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN."

(iv) Upon any sale or transfer of a Transfer Restricted Security (including any Transfer Restricted Security represented by a Global Note) pursuant to Rule 144 under the Securities Act or pursuant to an effective registration statement under the Securities Act:

(A) in the case of any Transfer Restricted Security that is a Certificated Security, the Registrar shall permit the Holder thereof to exchange such Transfer Restricted Security for a Certificated Security that does not bear the legend set forth in paragraph (i) above and rescind any restriction on the transfer of such Transfer Restricted Security; and

(B) in the case of any Transfer Restricted Security represented by a Global Note, such Transfer Restricted Security shall not be required to bear the legend set forth in (i) above, but shall continue to be subject to the provisions of Section 2.07(c) hereof; provided, however, that with respect to any request for an exchange of a Transfer Restricted Security that is represented by a Global Note for a Certificated Security that does not bear the legend set forth in paragraph (i) above, which request is made in reliance upon Rule 144, the Holder thereof shall certify in writing to the Registrar that such request is being made pursuant to Rule 144 (such certification to be substantially in the form of Exhibit B attached hereto).

(v) Any Additional Notes sold in a registered offering shall not be required to bear the legend set forth in paragraph (i) above.

(g) General Provisions Relating to Transfers and Exchanges.

(i) To permit registrations of transfers and exchanges, the Company shall execute and the Trustee shall authenticate Certificated Securities and Global Notes at the Registrar's request.

(ii) No service charge shall be made to a Holder for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar governmental charge payable upon exchange or transfer pursuant to Section 8.05 hereof).

(iii) All Certificated Securities and Global Notes issued upon any registration of transfer or exchange of Certificated Securities or Global Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Certificated Security or Global Notes surrendered upon such registration of transfer or exchange.

(iv) The Company shall not be required to register the transfer of or to exchange a Note between a record date and the next succeeding interest payment date.

(v) Prior to due presentment for the registration of a transfer of any Note, the Trustee, any Agent and the Company may deem and treat the Person in whose name any Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of, premium, if any, interest, if any, on such Note, and neither the Trustee, any Agent nor the Company shall be affected by notice to the contrary.

(vi) The Trustee shall authenticate Certificated Securities and Global Notes in accordance with the provisions of Section 2.03 hereof.

(vii) Each Holder of a Note agrees to indemnify the Trustee against any liability that may result from the transfer, exchange or assignment of such Holder's Note in violation of any provision of this Indenture and/or applicable United States federal or state securities law.

(viii) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Note (including any transfers between or among Depositary participants or beneficial owners of interests in any Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

(ix) Notwithstanding the foregoing, neither the Trustee nor the Registrar shall authorize any transfer or exchange prohibited by the redemption provisions of Section 2.16 of this Indenture.

(h) Cancellation and/or Adjustment of Global Notes. At such time as all beneficial interests in Global Notes have been exchanged for Certificated Securities, or are repurchased or canceled, all Global Notes shall be returned to or retained and canceled by the Trustee in accordance with Section 2.12 hereof. At any time prior to such cancellation, if any beneficial interest in a Global Note is exchanged for Certificated Securities, or any Global Note is repurchased or canceled, the principal amount of Notes represented by such Global Note shall be reduced accordingly and an endorsement shall be made on such Global Note, by the Trustee or the Note Custodian, at the direction of the Trustee, to reflect such reduction.

(i) Transfer to Non-U.S. Persons. The following additional provisions shall apply with respect to the registration of any proposed transfer of a Transfer Restricted Security to any "non-U.S. person" (as defined in Regulation S of the Securities Act):

(i) the Registrar shall register the transfer of any Transfer Restricted Security if:

(A) the requested transfer is after the second anniversary of the Issue Date with respect to such Transfer Restricted Security; provided, however, that neither the Company nor any Affiliate of the Company has held any beneficial interest in such Note, or portion thereof, at any time on or prior to the second anniversary of the Issue Date with respect to such Transfer Restricted Security and such transfer can otherwise be lawfully made under the Securities Act without registering such Transfer Restricted Security thereunder; or

(B) the proposed transferor has delivered to the Registrar a certificate substantially in the form of Exhibit C hereto;

(ii) if the Notes to be transferred consist of Certificated Securities that, after transfer, are to be evidenced by an interest in a Global Note sold in reliance on Regulation S under the Securities Act (a "Regulation S Global Note") upon receipt by the Registrar of:

(A) written instructions given in accordance with the Depositary's and the Registrar's procedures, and

(B) the appropriate certificate, if any, required by clause (B) of paragraph (i) above, together with any required legal opinions and certifications,

the Registrar shall register the transfer and reflect on its books and records the date and an increase in the principal amount of the Regulation S Global Note in an amount equal to the principal amount of Certificated Securities to be transferred, and the Trustee shall cancel the Certificated Securities so transferred;

(iii) if the Notes to be transferred consist of a transfer of an interest in a Global Note, upon receipt by the Registrar of:

(A) written instructions given in accordance with the Depositary's and the Registrar's procedures, and

(B) the appropriate certificate, if any, required by clause (B) of paragraph (i) above, together with any required legal opinions and certifications,

the Registrar shall register the transfer and reflect on its books and records the date and (1) a decrease in the principal amount of the Global Note from which such interests are to be transferred in an amount equal to the principal amount of the Notes to be transferred and (2) an increase in the principal amount of the Regulation S Global Note in an amount equal to the principal amount of the Global Note to be transferred; and

(iv) until the 41st day after the Issue Date of such Transfer Restricted Security (the "Restricted Period"), an owner of a beneficial interest in the Regulation S Global Note may not transfer such interest to a transferee that is a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902(o) of the Securities Act. During the Restricted Period, all beneficial interests in the Regulation S Global Note shall be transferred only through Euroclear System or Clearstream Banking, S.A., either directly if the transferor and transferee are participants in such systems, or indirectly through organizations that are participants.

## SECTION 2.08 REPLACEMENT OF NOTES.

If any mutilated Note is surrendered to the Trustee, the Note Custodian, the Depositary or the Company, and the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, then the Company shall issue and the Trustee, upon the written order of the Company signed by two Officers of the Company, shall authenticate a replacement Note if the Trustee's requirements for replacements of Notes are met. An indemnity bond must be supplied by the Holder that is sufficient in the judgment of the Trustee and the Company to protect the Company, the Trustee, any Agent and any authenticating agent from any loss that any of them may suffer if a Note

is replaced. The Company and the Trustee may charge for their expenses in replacing a Note. Every replacement Note is an additional obligation of the Company and shall be entitled to all of the benefits of this Indenture equally and proportionately with all other Notes duly issued hereunder.

#### SECTION 2.09 OUTSTANDING NOTES.

The Notes outstanding at any time are all the Notes authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation, those redeemed pursuant to Section 2.16 hereof, those reductions in the interest in a Global Note effected by the Trustee in accordance with the provisions hereof, and those described in this Section as not outstanding. If a Note is replaced pursuant to Section 2.08 hereof, then it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Note is held by a bona fide purchaser; provided, however, that the aggregate principal amount of the Notes shall not increase by reason of this Section 2.09 or Section 2.08 hereof. If the principal amount of any Note is considered paid under Section 3.01 hereof, then it ceases to be outstanding and interest on it ceases to accrue. Subject to Section 2.10 hereof, a Note does not cease to be outstanding because the Company or an Affiliate of the Company holds the Note. If the Paying Agent (other than the Company or a Subsidiary thereof) holds, on a maturity date, money sufficient to pay Notes payable on that date, then on and after that date such Notes shall be deemed to be no longer outstanding and shall cease to accrue interest.

#### SECTION 2.10 TREASURY NOTES.

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Company or by any Affiliate thereof shall be considered as though not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes that a Responsible Officer actually knows to be so owned shall be so considered.

#### SECTION 2.11 TEMPORARY NOTES.

Until Certificated Securities are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Notes upon a written order of the Company signed by two Officers of the Company directing the Trustee to authenticate the Notes and certifying that all conditions precedent to the issuance of the Notes contained herein have been complied with. Temporary Notes shall be substantially in the form of Certificated Securities but may have variations that the Company and the Trustee consider appropriate for temporary Notes and as shall be reasonably acceptable to the Trustee. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate Certificated Securities in exchange for temporary Notes. Holders of temporary Notes shall be entitled to all of the benefits of this Indenture.

#### SECTION 2.12 CANCELLATION.

The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar and Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel all Notes surrendered for registration of transfer, exchange, payment, replacement or cancellation and shall return canceled Notes to the Company. The Company may not issue new Notes to replace Notes that the Company has paid or redeemed or that have been delivered to the Trustee for cancellation.

#### SECTION 2.13 RECORD DATE.

The record date for purposes of determining the identity of Holders of the Notes entitled to vote or consent to any action by vote or consent authorized or permitted under this Indenture shall be determined as provided for in TIA Section 316(c).

#### SECTION 2.14 DEFAULTED INTEREST.



If the Company defaults in a payment of interest on the Notes, it shall pay the defaulted interest in any lawful manner plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Holders on a subsequent special record date, which date shall be at the earliest practicable date but in all events at least five Business Days prior to the payment date, in each case at the rate provided in the Notes and in Section 3.01 hereof. The Company shall notify the Trustee in writing of the amount of defaulted interest proposed to be paid on each Note and the date of the proposed payment. The Company shall, with the consent of the Trustee, fix or cause to be fixed each such special record date and payment date. At least 15 days before the special record date, the Company (or, upon the written request of the Company, the Trustee in the name and at the expense of the Company) shall mail or cause to be mailed to the Holders a notice that states the special record date, the related payment date and the amount of such interest to be paid.

#### SECTION 2.15 CUSIP NUMBERS.

The Company in issuing the Notes may use CUSIP numbers (if then generally in use), and, if so, the Trustee shall use CUSIP numbers in notices and other correspondence as a convenience to Holders; provided, however, that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice and that reliance may be placed only on the other identification numbers printed on the Notes, and any such notice shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee of any change in the CUSIP numbers.

#### SECTION 2.16 OPTIONAL REDEMPTION.

(a) THE COMPANY MAY, AT ITS OPTION, REDEEM THE NOTES IN WHOLE BUT NOT IN PART ON SEPTEMBER 30, 2010 OR ON SEPTEMBER 30 OF EACH YEAR THEREAFTER THROUGH SEPTEMBER 30, 2014 (EACH, A "REDEMPTION DATE") PRIOR TO THE MATURITY OF THE NOTES, AT A REDEMPTION PRICE EQUAL TO 100% OF THE PRINCIPAL AMOUNT THEN OUTSTANDING WITH RESPECT TO THE NOTES SO REDEEMED, PLUS ALL ACCRUED AND UNPAID INTEREST ON SUCH PRINCIPAL AMOUNT (THE "REDEMPTION PRICE"). IF ANY REDEMPTION DATE IS NOT A BUSINESS DAY, THEN THE REDEMPTION SHALL OCCUR ON THE NEXT IMMEDIATELY SUCCEEDING BUSINESS DAY.

(b) Except as provided in this Section 2.16 and elsewhere in this Indenture, the Company shall have no obligation or right to redeem the Notes prior to maturity.

(c) If the Company elects to redeem the Notes pursuant to the optional redemption provisions of this Section 2.16, then it shall furnish to the Trustee at least 45 days but not more than 60 days before a Redemption Date, a notice identifying the Notes to be redeemed and stating: (i) the Redemption Date; (ii) the Redemption Price; (iii) the name and address of the Paying Agent; (iv) that the Notes must be surrendered to the Paying Agent to collect the Redemption Price; (v) that, unless the Company defaults in paying the Redemption Price, interest on the Notes ceases to accrue on and after the Redemption Date; and (vi) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Notes.

(d) At least 30 days but not more than 60 days before any Redemption Date, the Trustee shall, in the Company's name and at the Company's expense, mail, by first class mail, a notice of redemption to each Holder.

(e) Once notice of redemption is mailed in accordance with Section 2.16(d), the principal amount of each Note called for redemption shall mature and become irrevocably due and payable on the stated Redemption Date at the Redemption Price. A notice of redemption may not be conditional. Failure to give such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of Notes held by Holders to whom such notice was properly given.

(f) One Business Day prior to any Redemption Date on which the Company elects to redeem the Notes, the Company shall deposit with the Trustee or with the Paying Agent funds immediately available to the Trustee and sufficient to pay the Redemption Price. The Trustee or the Paying Agent shall promptly return to the Company any money deposited with the Trustee or the Paying Agent by the Company in excess of the amounts necessary to pay the Redemption Price of the Notes.

If the Company complies with the provisions of the preceding paragraph, on and after any Redemption Date, then interest shall cease to accrue on the Notes, whether or not such Notes are presented for payment. If a Note is redeemed on or after an interest record date but on or prior to the related Interest Payment Date, then any accrued and unpaid interest shall be paid to the Person in whose name such Note was registered at the close of business on such record date. If a Note called for redemption shall not be so paid upon surrender for redemption because of the failure of the Company to comply with the preceding paragraph, interest shall be paid on the unpaid principal from the particular Redemption Date until such principal is paid, and to the extent lawful on any interest not paid on such unpaid principal, in each case at the rate provided in the Notes and Section 1.01 hereof.

(G) THE NOTES CALLED FOR REDEMPTION SHALL BE SURRENDERED BY THE HOLDER AND SHALL NOT BE REISSUED, AND NO NOTE SHALL BE ISSUED IN LIEU OF ANY REDEEMED PRINCIPAL AMOUNT OF ANY NOTE.

(H) NEITHER THE COMPANY NOR THE REGISTRAR SHALL BE REQUIRED TO REGISTER THE TRANSFER OF OR EXCHANGE ANY NOTES AFTER NOTICE OF REDEMPTION IS MAILED.

### ARTICLE III COVENANTS

#### SECTION 3.01 PAYMENT OF THE NOTES.

The Company shall pay or cause to be paid the principal of, premium, if any, and interest, if any, on the Notes on the dates and in the manner provided in the Notes. Principal of, premium, if any, and interest, if any, on the Notes shall be considered paid on the date due, whether such date is the date on which the Notes become due or any Redemption Date, if the Paying Agent, if other than the Company or a Subsidiary thereof, holds as of 10:00 a.m. Eastern Time on the due date money deposited by the Company in immediately available funds and designated for and sufficient to pay all principal of, premium, if any, and interest, if any, on the Notes then due. The Paying Agent shall return to the Company, no later than five days following the date of payment, any money (including accrued interest) that exceeds such amount of principal of, premium, if any, interest, if any, paid on the Notes. The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and premium, if any, and interest on overdue installments of interest, to the extent lawful, at a rate per annum equal to the rate of interest applicable to the Notes. All such default interest shall be payable on demand.

#### SECTION 3.02 MAINTENANCE OF OFFICE OR AGENCY.

The Company shall maintain an office or agency (which may be an office of the Trustee or an affiliate of the Trustee, Registrar or co-registrar) where Notes may be surrendered for registration of transfer or for exchange and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency for such purposes. The Company shall give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. The Company hereby designates the Corporate Trust Office of the Trustee, located at 321 N. Main Street - Lower Level, West Bend, WI 53095, as the initial office or agency of the Company in accordance with the preceding paragraph and Section 2.04 hereof.

#### SECTION 3.03 REPORTS

(a) Whether or not required by the rules and regulations of the SEC, so long as any Notes are outstanding, the Company shall furnish to the Holders of Notes and to the Trustee, within the time periods specified

in the SEC's rules and regulations, (i) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if the Company were required to file such forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and the SEC's rules and regulations adopted in connection therewith, and, with respect to the annual information only, a report thereon by the Company's certified independent accountants, and (ii) all current reports that would be required to be filed with the SEC on Form 8-K if the Company were required to file such reports.

(b) [Reserved]

(c) For so long as any Notes remain outstanding and are not freely transferable under the Securities Act, the Company shall furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(d) Delivery of such reports, information and documents to the Trustee is for informational purposes only, and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of the covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

#### SECTION 3.04 COMPLIANCE CERTIFICATE.

(a) The Company shall deliver to the Trustee, within 90 days after the end of each fiscal year, an Officers' Certificate stating that a review of the activities of the Company and its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether each has kept, observed, performed and fulfilled its obligations under this Indenture, and further stating, as to each such Officer signing such certificate, that, to the best of his or her knowledge, each has kept, observed, performed and fulfilled each and every covenant contained in this Indenture and is not in default in the performance or observance of any of the terms, provisions and conditions of this Indenture (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he or she may have knowledge and what action each is taking or proposes to take with respect thereto) and that, to the best of his or her knowledge, no event has occurred and remains in existence by reason of which payments on account of the principal of, premium, if any, or interest, if any, on the Notes is prohibited or if such event has occurred, a description of the event and what action each is taking or proposes to take with respect thereto.

(b) So long as not contrary to the then current recommendations of the American Institute of Certified Public Accountants, the year-end financial statements delivered pursuant to Section 3.03(a) above shall be accompanied by a written statement of the Company's independent public accountants (who shall be, in the sole discretion of the Company, Porter Keadle Moore, LLP or a firm of established national reputation reasonably satisfactory to the Trustee) that in making the examination necessary for certification of such financial statements, nothing has come to their attention that would lead them to believe that the Company has violated any provisions of Article III or Article IV hereof or, if any such violation has occurred, specifying the nature and period of existence thereof, it being understood that such accountants shall not be liable directly or indirectly to any Person for any failure to obtain knowledge of any such violation.

(c) The Company shall, so long as any of the Notes are outstanding, deliver to the Trustee, forthwith upon any Officer becoming aware of any Default or Event of Default, an Officers' Certificate specifying such Default or Event of Default and what action the Company is taking or propose to take with respect thereto.

(d) Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of the covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

#### SECTION 3.05 PAYMENT OF TAXES AND OTHER CLAIMS.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (a) all material taxes, assessments and governmental charges levied or imposed (i) upon the Company or

any of its Subsidiaries, or (ii) upon the income, profits or property of the Company or any of the Subsidiaries, and (b) all material lawful claims for labor, materials and supplies, which, if unpaid, could reasonably be expected to become a Lien upon the property of the Company or any of the Subsidiaries; provided, however, that the Company will not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings properly instituted and diligently conducted, or (y) if the failure to so pay, discharge or cause to be paid or discharged could not reasonably be expected to have a material adverse effect on the business and financial condition of the Company and its Subsidiaries, taken as a whole.

SECTION 3.06 [RESERVED].

SECTION 3.07 CORPORATE EXISTENCE.

Subject to Article IV hereof, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its existence as a corporation, in accordance with its organizational documents (as the same may be amended from time to time) and the material rights (charter and statutory), licenses and franchises of the Company; provided, however, that the Company shall not be required to preserve any such right, license or franchise, or its corporate existence, if the Board of Directors shall reasonably determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries, taken as a whole, and that the loss thereof is not adverse in any material respect to the Holders of the Notes.

SECTION 3.08 MAINTENANCE OF PROPERTIES.

The Company will cause all material properties owned by the Company or any of the Subsidiaries or used or held for use in the conduct of their respective businesses to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section 3.08 will prevent the Company from discontinuing the maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any of the Subsidiaries and is not disadvantageous in any material respect to the Holders.

ARTICLE IV  
SUCCESSORS

SECTION 4.01 MERGER, CONSOLIDATION OR SALE OF ASSETS.

(a) The Company may not (i) consolidate or merge with or into another Person (whether or not the Company is the surviving corporation), or (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its properties or assets, in one or more related transactions, to another Person unless:

(1) (A) the Company is the surviving corporation and owns at least 80% of the Capital Stock of each of the Subsidiaries following such transaction, or

(B) the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, conveyance or other disposition shall have been made is a corporation organized or existing under the laws of the United States, any state thereof or the District of Columbia;

(2) the Person formed by or surviving any such consolidation or merger (if other than the Company) or the Person to which such sale, assignment, transfer, conveyance or other disposition shall have been made assumes all the obligations of the Company under the Notes and this Indenture pursuant to a supplemental Indenture in a form reasonably satisfactory to the Trustee;

(3) immediately after such transaction no Default or Event of Default exists;

(4) [Reserved]; and

(5) the Company or the Person formed by or surviving any such consolidation or merger shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, sale, assignment, transfer, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the applicable provisions of this Indenture and that all conditions precedent in this Indenture relating to such transaction have been satisfied.

(b) Notwithstanding paragraph (a) above, the Company shall not lease all or substantially all of its assets to any Person.

(c) This Section 4.01 shall not apply to a sale, assignment, transfer, conveyance or other disposition of assets by the Company to a Wholly Owned Subsidiary.

#### SECTION 4.02 SUCCESSOR CORPORATION SUBSTITUTED.

Upon any consolidation or merger, or any sale, assignment, transfer, conveyance or other disposition of all or substantially all of the assets of the Company in accordance with Section 4.01 hereof, the successor Person formed by such consolidation or into or with which the Company is merged or to which such sale, assignment, transfer, conveyance or other disposition is made shall succeed to, and be substituted for (so that, in the case of any consolidation or merger, or any sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the assets of the Company, from and after the date of such event, the provisions of this Indenture referring to the Company shall refer instead to the successor Person and not to the Company), and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein; provided, however, that the predecessor shall not be relieved from the obligation to pay the principal of and interest on the Notes, except in the case of a sale of all of the predecessor's assets or a consolidation or merger that meets the requirements of Section 4.01 hereof.

#### ARTICLE V DEFAULTS AND REMEDIES

#### SECTION 5.01 EVENTS OF DEFAULT.

"Event of Default" means any one of the following events:

(a) default that continues for 30 days in the payment when due of interest on the Notes (whether or not such payment is prohibited by the provisions of Article IX hereof);

(b) default in payment when due of the principal of or premium, if any, on the Notes (including payments pursuant to the optional redemption of such Notes, and whether or not such payment is prohibited by the provisions of Article IX hereof);

(c) failure by the Company to comply with any of its agreements or obligations in this Indenture or the Notes and the continuance of such failure for a period of 60 days after receipt of a notice of such failure from the Trustee or Holders of at least 25% in principal amount of the then outstanding Notes issued under this Indenture;

(d) Indebtedness of the Company (other than Indebtedness owed to the Company or any Subsidiary), or any Indebtedness that is Guaranteed by the Company, is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default (or similar event or circumstance) and the total amount of such Indebtedness unpaid or accelerated exceeds \$1.0 million; provided, however, that in the case of any Indebtedness that is accelerated, such acceleration has not been rescinded after 30 days' written notice provided in accordance with the applicable indenture or other debt instrument evidencing such Indebtedness;

(e) failure by the Company to pay final judgments for the payment of money (other than judgments that are covered by enforceable insurance policies issued by reputable carriers and as to which such insurance carriers have acknowledged liability in writing) aggregating in excess of \$1.0 million, which judgments are not paid, discharged, bonded or stayed for a period of 60 days after notice thereof has been given by the Trustee or Holders of at least 25% in principal amount of the then outstanding Notes issued under this Indenture;

(f) the Company, any Subsidiary, or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, pursuant to or within the meaning of any Bankruptcy Law:

(i) commences a voluntary case;

(ii) consents to the entry of an order for relief against it in an involuntary case;

(iii) has a receiver, conservator, liquidator, assignee, custodian, trustee or similar official appointed for it or for all or substantially all of its property;

(iv) makes a general assignment for the benefit of its creditors;

(v) fails generally to pay debts as they become due; or

(g) a court of competent jurisdiction or a governmental or regulatory authority having jurisdiction enters an order or decree under any Bankruptcy Law that:

(i) is for relief against the Company, any Significant Subsidiary or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, in an involuntary case;

(ii) appoints a receiver, conservator, liquidator, assignee, custodian, trustee or similar official of the Company, any Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary for all or substantially all of the property of the Company, any Significant Subsidiary or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary; or

(iii) orders the liquidation or the termination of federal deposit insurance of the Company, any Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary;

and the order, decree or action remains unstayed and in effect for 60 consecutive days.

#### SECTION 5.02 ACCELERATION.

If an Event of Default arising from an event specified in clause (f) or (g) of Section 5.01 hereof with respect to the Company, any Significant Subsidiary that is a bank or any group of Subsidiaries that are banks that, taken together, would constitute a Significant Subsidiary occurs and is continuing, then the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes issued under this Indenture may declare all such Notes to be due and payable immediately. The occurrence of an Event of Default for any reason other than the events described in clauses (f) and (g) of Section 5.01 hereof will not give the Trustee or the Holders the right to declare the Notes immediately due and payable.

#### SECTION 5.03 OTHER REMEDIES.

If an Event of Default occurs and is continuing, the Trustee may, subject to Section 5.02 hereof, pursue any available remedy to collect the payment of principal of, premium, if any, and interest, if any, then due on the Notes or to enforce the performance of any provision of the Notes or this Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder of a Note in exercising any right or remedy accruing upon an Event of

Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

#### SECTION 5.04 WAIVER OF PAST DEFAULTS / RESCISSION OF ACCELERATION.

The Holders of a majority in aggregate principal amount of the Notes then outstanding, by notice to the Trustee, may, on behalf of the Holders of all of such Notes, waive any existing Default or Event of Default and its consequences under this Indenture except a continuing Default or Event of Default in the payment of principal of, premium, if any, or interest, if any, on such Notes. When a Default or Event of Default is waived, it is deemed cured and ceases to exist for every purpose of this Indenture, but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon. Further, the Holders of a majority in aggregate principal amount of the then outstanding Notes, by written notice to the Trustee, may, on behalf of the Holders of all of such Notes, rescind an acceleration and its consequences, if the rescission would not conflict with any judgment or decree. No such rescission shall affect any subsequent Event of Default or impair any right consequent thereto.

#### SECTION 5.05 CONTROL BY MAJORITY.

Holders of a majority in principal amount of the then outstanding Notes may direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with applicable law or this Indenture that the Trustee determines may be unduly prejudicial to the rights of other Holders of Notes or that may involve the Trustee in personal liability.

#### SECTION 5.06 LIMITATION ON SUITS.

A Holder of a Note may pursue a remedy with respect to this Indenture or the Notes only if:

- (a) the Holder of a Note gives to the Trustee written notice of a continuing Event of Default;
- (b) the Holders of at least 25% in principal amount of the then outstanding Notes make a written request to the Trustee to pursue the remedy;
- (c) such Holder of a Note or Holders of Notes offer and, if requested, provide to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;
- (d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and, if requested, the provision of indemnity; and
- (e) during such 60-day period the Holders of a majority in principal amount of the then outstanding Notes do not give the Trustee a direction inconsistent with the request.

A Holder of a Note may not use this Indenture to prejudice the rights of another Holder of a Note or to obtain a preference or priority over another Holder of a Note.

#### SECTION 5.07 RIGHTS OF HOLDERS OF NOTES TO RECEIVE PAYMENT.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Note to receive payment of principal of, premium, if any, and interest, if any, on the Note, on or after the respective due dates expressed in the Note (including in connection with an offer to purchase), or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

#### SECTION 5.08 COLLECTION SUIT BY TRUSTEE.

If an Event of Default specified in Section 5.01(a) or (b) occurs and is continuing, the Trustee is authorized to recover judgment in its own name and as trustee of an express trust against the Company for all overdue amounts

of principal of, premium, if any, and interest, if any, remaining unpaid on the Notes and interest on overdue principal and, to the extent lawful, interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

#### SECTION 5.09 TRUSTEE MAY FILE PROOFS OF CLAIM.

The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders of the Notes allowed in any judicial proceedings relative to the Company (or any other obligor upon the Notes), its creditors or its property and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claims and any custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 6.07 hereof. To the extent that the payment of any such compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 6.07 hereof out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a Lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties that the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

#### SECTION 5.10 PRIORITIES.

If the Trustee collects any money pursuant to Section 5.08, then it shall pay out the money in the following order:

First: to the Trustee, its agents and attorneys for amounts due under Section 6.07 hereof, including payment of all compensation, expenses and liabilities incurred, and all advances made, by the Trustee, and the reasonable costs and expenses of collection actually incurred;

Second: to Holders for amounts due and unpaid, including the Redemption Price of the Notes in the event that the Company has mailed a notice of redemption pursuant to Section 2.16 hereof, on the Notes for principal, premium, and interest, if any, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal, premium, and interest, if any, respectively; and

Third: to the Company or to such party as a court of competent jurisdiction shall direct.

The Trustee may fix a record date and payment date for any payment to Holders of Notes pursuant to this Section 5.10.

#### SECTION 5.11 UNDERTAKING FOR COSTS.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit instituted by the Trustee, any suit instituted by a Holder of a Note (whether pursuant to Section 5.06 hereof or otherwise) or a suit instituted by Holders of more than 10% in principal amount of the then outstanding Notes.



ARTICLE VI  
TRUSTEE

SECTION 6.01 DUTIES OF TRUSTEE.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) Except during the continuance of an Event of Default:

(i) the duties of the Trustee shall be determined solely by the express provisions of this Indenture and the Trustee need perform only those duties that are specifically set forth in this Indenture and no others, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liabilities for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 5.05 hereof.

(d) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c), (e) and (g) of this Section 6.01 and to Section 6.02.

(e) No provision of this Indenture shall require the Trustee to expend or risk its own funds or incur any liability.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(g) Except with respect to Sections 3.01 and 3.04 hereof, the Trustee shall have no duties to inquire as to the performance of the Company's covenants in Article III hereof. In addition, the Trustee shall not be deemed to have knowledge of any Default or Event of Default except (i) any Event of Default occurring pursuant to Sections 5.01(a) or 5.01(b) hereof, or (ii) any Default or Event of Default of which the Trustee shall have received written notification or obtained actual knowledge.

(h) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 6.01 and to the provisions of the TIA.

#### SECTION 6.02 RIGHTS OF TRUSTEE.

(a) The Trustee may conclusively rely upon any document (whether in its original or facsimile form) believed by it to be genuine and to have been signed or presented by the proper Person. Subject to Section 6.01(b)(ii) hereof, the Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel or both. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel. The Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection from liability in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within the rights or powers conferred upon it by this Indenture.

(e) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders unless such Holders shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense that might be incurred by it in compliance with such request or direction.

(g) The rights, privileges, protections, immunities and benefits given to the Trustee, including its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.

(h) The Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

#### SECTION 6.03 INDIVIDUAL RIGHTS OF TRUSTEE.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or any Affiliate of the Company with the same rights it would have if it were not Trustee. However, in the event that the Trustee acquires any conflicting interest, it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee, or resign. Any Agent may do the same with like rights and duties. The Trustee is also subject to Sections 6.10 and 6.11 hereof.

#### SECTION 6.04 TRUSTEE'S DISCLAIMER.

The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Company's use of the proceeds from the Notes or any money paid to the Company or upon the Company's direction under any provision hereof, it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee, and it shall not be responsible for any statement or recital herein or any statement in the Notes or any other document furnished or issued in connection with the sale of the Notes or pursuant to this Indenture other than its certificate of authentication.

#### SECTION 6.05 NOTICE OF DEFAULTS.

If a Default or Event of Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to the Holders of the Notes a notice of the Default or Event of Default within 90 days after it occurs. Except in the case of a Default or Event of Default in payment of principal of, premium, if any, or interest, if any, on any Note, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Holders of the Notes.

#### SECTION 6.06 REPORTS BY TRUSTEE TO HOLDERS OF THE NOTES.

Within 60 days after each December 15, beginning with the December 15 following the date of this Indenture, and for so long as Notes remain outstanding, the Trustee shall mail to the Holders of the Notes a brief report dated as of such reporting date that complies with TIA Section 313(a) (but if no event described in TIA Section 313(a) has occurred within the twelve months preceding the reporting date, no report need be transmitted). The Trustee also shall comply with TIA Section 313(b)(2). The Trustee shall also transmit by mail all reports as required by TIA Section 313(c).

A copy of each report at the time of its mailing to the Holders of Notes shall be mailed to the Company and filed with the SEC and each stock exchange on which the Notes are listed in accordance with TIA Section 313(d). The Company shall promptly notify the Trustee when the Notes are listed on any stock exchange and of any delisting thereof.

#### SECTION 6.07 COMPENSATION AND INDEMNITY.

The Company shall pay to the Trustee from time to time such compensation as shall be agreed in writing between the Company and the Trustee for its acceptance of this Indenture and for its services hereunder. To the extent permitted by law, the Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee promptly upon request for all reasonable disbursements, advances, fees and expenses incurred or made by it in addition to the compensation for its services. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Company shall indemnify and hold harmless the Trustee against any and all losses, liabilities, damages, claims or expenses including taxes (other than taxes based on the income of the Trustee) incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture, including the reasonable costs and expenses actually incurred of enforcing this Indenture against the Company (including this Section 6.07) and defending itself against any claim (whether asserted by the Company or any Holder or any other person) or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent any such loss, liability or expense may be attributable to its negligence, willful misconduct or bad faith. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Trustee shall reasonably cooperate in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld.

The obligations of the Company under this Section 6.07 shall survive the satisfaction and discharge of this Indenture.

To secure the Company's payment obligations in this Section, the Trustee shall have a Lien prior to the Notes on all money or property held or collected by the Trustee, except that held in trust to pay principal of, premium, if any, and interest, if any, on particular Notes. Such Lien shall survive the satisfaction and discharge of this Indenture.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 5.01(h) or (i) hereof occurs, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under any Bankruptcy Law.

The Trustee shall comply with the provisions of TIA Section 313(b)(2) to the extent applicable.

#### SECTION 6.08 REPLACEMENT OF TRUSTEE.

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section 6.08.

The Trustee may resign in writing at any time and be discharged from the trust hereby created by so notifying the Company. The Holders of a majority in principal amount of the then outstanding Notes may remove the Trustee by so notifying the Trustee and the Company in writing. The Company may remove the Trustee if:

- (a) the Trustee fails to comply with Section 6.10 hereof;
- (b) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;
- (c) a custodian or public officer takes charge of the Trustee or its property; or
- (d) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holders of a majority in principal amount of the then outstanding Notes may appoint a successor Trustee to replace the successor Trustee appointed by the Company.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company, or the Holders of at least 10% in principal amount of the then outstanding Notes may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee, after written request by any Holder who has been a Holder of a Note for at least six months, fails to comply with Section 6.10, such Holder may petition, at the expense of the Company, any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to the Holders of the Notes. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee; provided, however, that all sums owing to the Trustee hereunder have been paid and subject to the Lien provided for in Section 6.07 hereof. Notwithstanding replacement of the Trustee pursuant to this Section 6.08, the Company's obligations under Section 6.07 hereof shall continue for the benefit of the retiring Trustee.

#### SECTION 6.09 SUCCESSOR TRUSTEE BY MERGER, ETC.

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation or banking association, the successor corporation without any further act shall be the successor Trustee.

#### SECTION 6.10 ELIGIBILITY; DISQUALIFICATION.

There shall at all times be a Trustee hereunder that is a corporation or banking association organized and doing business under the laws of the United States of America or of any state thereof, that is authorized under such laws to exercise corporate trustee power, that is subject to supervision or examination by federal or state authorities and that has a combined capital and surplus of at least \$50.0 million as set forth in its most recent published annual report of condition.

This Indenture shall always have a Trustee who satisfies the requirements of TIA Section 310(a)(1), (2) and (5). The Trustee is subject to TIA Section 310(b).

#### SECTION 6.11 PREFERENTIAL COLLECTION OF CLAIMS AGAINST THE COMPANY.

The Trustee is subject to TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

### ARTICLE VII LEGAL DEFEASANCE AND COVENANT DEFEASANCE; SATISFACTION AND DISCHARGE OF INDENTURE

#### SECTION 7.01 OPTION TO EFFECT LEGAL DEFEASANCE OR COVENANT DEFEASANCE.

The Company may, at the option of the Board of Directors evidenced by a resolution set forth in an Officers' Certificate, at any time, elect to have either Section 7.02 or 7.03 hereof be applied to all outstanding Notes upon compliance with the conditions set forth below in this Article VII.

#### SECTION 7.02 LEGAL DEFEASANCE AND DISCHARGE.

Upon the Company's exercise under Section 7.01 hereof of the option applicable to this Section 7.02, the Company shall, subject to the satisfaction of the conditions set forth in Section 7.04 hereof, be deemed to have been discharged from its obligations with respect to all outstanding Notes on the date the conditions set forth below are satisfied (hereinafter, "Legal Defeasance"). For this purpose, Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Notes, which shall thereafter be deemed to be "outstanding" only for the purposes of Section 7.05 hereof and the other Sections of this Indenture referred to in clauses (i) and (ii) below, and to have satisfied all their other obligations under such Notes and this Indenture (and the Trustee, on the written demand of and at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following provisions which shall survive until otherwise terminated or discharged hereunder: (i) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, and interest, if any, on such Notes when such payments are due from the trust referred to in Section 7.05 hereof, (ii) the Company's obligations with respect to the Notes under Article II and Section 3.02 hereof, (iii) the rights, powers, trusts, duties and immunities of the Trustee hereunder, and the Company's obligations in connection therewith, and (iv) this Article VII. Subject to compliance with this Article VII, the Company may exercise its option under this Section 7.02 notwithstanding the prior exercise of its option under Section 7.03.

#### SECTION 7.03 COVENANT DEFEASANCE.

Upon the Company's exercise under Section 7.01 hereof of the option applicable to this Section 7.03, the Company shall, subject to the satisfaction of the conditions set forth in Section 7.04 hereof, be released from their obligations under the covenants contained in Sections 3.03 and 3.05 with respect to the outstanding Notes on and after the date the conditions set forth below are satisfied (hereinafter, "Covenant Defeasance"), and the Notes shall thereafter be deemed not "outstanding" for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder (it being understood that such Notes shall not be deemed outstanding for accounting purposes). For this purpose, "Covenant Defeasance" means that, with respect to the outstanding Notes, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 5.01 hereof, but, except as specified above, the remainder of this Indenture and such Notes shall be unaffected thereby. In addition, upon the Company's exercise under Section 7.01 hereof of the option applicable to this Section

7.03 hereof, subject to the satisfaction of the conditions set forth in Section 7.04 hereof, Sections 6.01(c) through 6.01(e) hereof shall no longer constitute Events of Default.

SECTION 7.04 CONDITIONS TO LEGAL OR COVENANT DEFEASANCE.

The following shall be the conditions to the application of either Section 7.02 or 7.03 hereof to the outstanding Notes:

In order to exercise either Legal Defeasance or Covenant Defeasance:

(i) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as shall be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay either (i) on the stated maturity, the principal of, premium, if any, and interest, if any, on such outstanding Notes, or (ii) on the particular Redemption Date, the Redemption Price, in the event that the Company has mailed a notice of redemption pursuant to Section 2.16(c) but has not already deposited with the Trustee or paid the Redemption Price due pursuant to Section 2.16(f), as the case may be, and the Company must specify whether such Notes are being defeased to maturity or to such Redemption Date;

(ii) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling, or (B) since the Closing Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(iii) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(iv) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) or insofar as Sections 5.01(f) or 5.01(g) hereof are concerned, at any time in the period ending on the 91st day after the date of deposit (or greater period of time in which any such deposit of trust funds may remain subject to bankruptcy or insolvency laws insofar as those apply to the deposit by the Company);

(v) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than this Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(vi) the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that, as of the date of such opinion, assuming no intervening bankruptcy of the Company between the date of deposit and the 91st day following the deposit and assuming no Holder of Notes is an insider of the Company, after the 91st day following the deposit, the trust funds shall not be subject to the effects of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally under any applicable United States or state law;

(vii) the Company must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders of Notes over the other creditors of

the Company with the intent of defeating, hindering, delaying or defrauding creditors of the Company or others; and

(viii) the Company must deliver to the applicable Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

**SECTION 7.05 DEPOSITED MONEY AND GOVERNMENT SECURITIES TO BE HELD IN TRUST;  
OTHER MISCELLANEOUS PROVISIONS.**

Subject to Section 7.06 hereof, all money and non-callable Government Securities (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 7.05, the "Trustee") pursuant to Section 7.04 hereof in respect of the outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as Paying Agent) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal of, premium, if any, and interest, if any, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the cash or non-callable Government Securities deposited pursuant to Section 7.04 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Notes.

Anything in this Article VII to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon the request of the Company any money or non-callable Government Securities held by it as provided in Section 7.04 hereof which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee (which may be the opinion delivered under Section 7.04(i) hereof), are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

**SECTION 7.06 REPAYMENT TO THE COMPANY.**

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of, premium, if any, or interest, if any, on any Note and remaining unclaimed for two years after such principal, premium, or interest has become due and payable shall be paid to the Company on its request or, if then held by the Company, shall be discharged from such trust; and the Holder of such Note shall thereafter look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, shall, at the expense of the Company, cause to be published once, in the New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining shall be repaid to the Company.

**SECTION 7.07 REINSTATEMENT.**

If the Trustee or Paying Agent is unable to apply any United States dollars or non-callable Government Securities in accordance with Section 7.02 or 7.03 hereof, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 7.02 or 7.03 hereof until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 7.02 or 7.03 hereof, as the case may be; provided, however, that, if the Company makes any payment of principal of, premium, if any, or interest, if any, on any Note following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

SECTION 7.08 TERMINATION OF THE COMPANY'S OBLIGATIONS.

(a) The Company may terminate its obligations under the Notes and this Indenture, except those obligations referred to in Section 7.08(b), if:

(1) either (A) all Notes previously authenticated and delivered (other than destroyed, lost or stolen Notes which have been replaced or paid or Notes for whose payment money has theretofore been deposited with the Trustee or the Paying Agent in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 7.02) have been delivered to the Trustee for cancellation and the Company has paid all sums payable by it hereunder, (B) the Company has redeemed all of the then outstanding Notes pursuant to Section 2.16, or (C) all Notes have otherwise become due and payable hereunder and the Company shall have irrevocably deposited or caused to be deposited with the Trustee or a trustee reasonably satisfactory to the Trustee, under the terms of an irrevocable trust agreement in form and substance satisfactory to the Trustee, as trust funds in trust solely for the benefit of the Holders for that purpose, money in such amount as is sufficient without consideration of reinvestment of such interest, to pay the principal of, premium, if any, and interest on the outstanding Notes to maturity or redemption, as certified in a certificate of a nationally recognized firm of independent public accountants; provided that the Trustee shall have been irrevocably instructed to apply such money to the payment of said principal, premium, if any, and interest with respect to the Notes;

(2) no Default or Event of Default with respect to this Indenture or the Notes shall have occurred and be continuing on the date of such deposit or shall occur as a result of such deposit and such deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Company is a party or by which it is bound;

(3) the Company shall have paid all other sums payable by it hereunder; and

(4) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that (A) all conditions precedent providing for the termination of the Company's obligation under the Notes and this Indenture have been complied with, and (B) such satisfaction and discharge will not result in a breach or violation of, or constitute a default under, this Indenture or any material agreement or instrument to which the Company is a party or by which the Company is bound.

(b) Notwithstanding Section 7.08(a), the Company's obligations in Section 2.07, Section 2.08, Section 2.09, Section 2.14, Section 3.01, Section 3.02 and Section 6.07 shall survive until the Notes are no longer outstanding.

(c) After such delivery or irrevocable deposit, the Trustee, upon request, shall acknowledge in writing the discharge of the Company's obligations under the Notes and this Indenture except for those surviving obligations specified above.

ARTICLE VIII  
AMENDMENT, SUPPLEMENT AND WAIVER

SECTION 8.01 WITHOUT CONSENT OF HOLDERS.

Notwithstanding Section 8.02 hereof, the Company and the Trustee may amend or supplement this Indenture or the Notes, as applicable, without the consent of any Holder:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to provide for uncertificated Notes in addition to or in place of certificated Notes;



(c) to provide for the assumption of the Company's obligations to the Holders of the Notes in the case of a merger, consolidation or sale of all or substantially all of the Company's assets pursuant to Section 4.01 hereof;

(d) to make any change that would provide any additional rights or benefits to the Holders of Notes or that does not adversely affect the legal rights under this Indenture of any such Holder;

(e) to comply with the requirements of the SEC in order to effect or maintain the qualification of this Indenture under the TIA; or

(f) to provide for the issuance, subject to the conditions and in compliance with the covenants related thereto set forth herein, of Additional Notes, which shall have terms substantially identical in all material respects to the Original Notes (except that the transfer restrictions contained in the Original Notes shall be modified or eliminated as appropriate), and which may be treated together with any outstanding Original Notes, as a single issue of Notes.

Upon the request of the Company accompanied by a resolution of the Board of Directors authorizing the execution of any such amended or supplemental indenture, and upon receipt by the Trustee of the documents described in Section 8.06 hereof, the Trustee shall join with the Company in the execution of any amended or supplemental indenture authorized or permitted by the terms of this indenture and to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to enter into such amended or supplemental indenture that affects its own rights, duties or immunities under this Indenture or otherwise.

#### SECTION 8.02 WITH CONSENT OF HOLDERS OF NOTES.

Except as provided below in this Section 8.02, the Company and the Trustee may amend or supplement this Indenture or the Notes, as applicable, with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and, subject to Sections 5.04 and 5.07 hereof, any existing Default or Event of Default (other than an Event of Default in the payment of the principal of, premium, or interest, if any, on the Notes resulting from an acceleration that has been rescinded) or compliance with any provision of this Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

However, without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder):

(1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any Note, or alter the provisions with respect to the redemption of the Notes;

(3) reduce the rate of or change the time for payment of interest on any Note;

(4) waive a Default or Event of Default in the payment of principal of, premium, if any, or interest, if any, on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration);

(5) make any Note payable in money other than that stated in the Notes;

(6) make any change in the provisions of this Indenture relating to waivers of past Defaults or Events of Defaults or the rights of Holders of Notes to receive payments of principal of or premium, if any, or interest, if any, on the Notes;

(7) waive payment of the Redemption Price with respect to Notes called for redemption; or

(8) make any change in the foregoing amendment and waiver provisions.

In addition, any amendment to the provisions of Article IX hereof, including the related definitions, shall require the consent of the Holders of at least 75% in aggregate principal amount of the Notes issued hereunder that are then outstanding if such amendment would adversely affect the rights of Holders of any of the Notes. Further, no amendment may be made to the provisions of Articles VII or IX hereof that adversely affects the rights of any holder of Senior Debt then outstanding unless such holder of Senior Debt (or a Representative thereof authorized to give consent) consents to such amendment.

Upon the request of the Company accompanied by a Board Resolution authorizing the execution of any such amended or supplemental indenture, and upon the filing with the Trustee of evidence satisfactory to the Trustee of the consent of the Holders as aforesaid, and upon receipt by the Trustee of the documents described in Section 8.06 hereof, the Trustee shall join with the Company in the execution of such amended or supplemental indenture unless such amended or supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such amended or supplemental indenture.

It shall not be necessary for the consent of the Holders under this Section 8.02 to approve the particular form of any proposed amendment or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section becomes effective, the Company shall mail to the Holders of each Note affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amended or supplemental indenture or waiver.

#### SECTION 8.03 COMPLIANCE WITH TRUST INDENTURE ACT.

Every amendment or supplement to this Indenture or the Notes shall be set forth in an amended or supplemental indenture that complies with the TIA as then in effect.

#### SECTION 8.04 REVOCATION AND EFFECT OF CONSENTS.

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Note or portion of a Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent is not made on any Note. However, any such Holder or subsequent Holder may revoke the consent as to its Note if the Trustee receives written notice of revocation before the date the waiver, supplement or amendment becomes effective. An amendment, supplement or waiver becomes effective in accordance with its terms and thereafter binds every Holder.

The Company may, but shall not be obligated to, fix a record date for determining which Holders must consent to such amendment or waiver. If the Company fixes a record date, then the record date shall be fixed at the later of (i) 30 days prior to the first solicitation of such consent or the date of the most recent list of Holders furnished to the Trustee prior to such solicitation pursuant to Section 2.06, or (ii) such other date as the Company shall lawfully designate. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those Persons who held Notes at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such Persons continue to be Holders after such record date.

#### SECTION 8.05 NOTATION ON OR EXCHANGE OF NOTES.

The Trustee may place an appropriate notation regarding an amendment, supplement or waiver on any Note thereafter authenticated. If an amendment, supplement or waiver changes the terms of a Note, the Trustee may (or, upon the specific written request of the Company, shall, at the Company's expense) request the Holder to deliver the

Note to the Trustee. The Trustee shall (in accordance with the specific direction of the Company) place an appropriate notation on the Note about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determine, the Company, in exchange for all Notes, may issue and the Trustee shall authenticate new Notes that reflect the amendment, supplement or waiver.

Failure to make the appropriate notation or issue a new Note shall not affect the validity and effect of such amendment, supplement or waiver.

#### SECTION 8.06 TRUSTEE TO SIGN AMENDMENTS, ETC.

The Trustee shall sign any amendment, supplement or waiver, including an amended or supplemental indenture, authorized pursuant to this Article VIII if the amendment, supplement or waiver does not adversely affect the rights, duties, liabilities or immunities of the Trustee. The Company may not sign an amendment or supplemental indenture until the Board of Directors approves it pursuant to a Board Resolution. In executing any amended or supplemental indenture or in connection with any waiver or consent to the departure from the terms of this Indenture, the Trustee shall be entitled to request and receive, and (subject to Section 6.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that the execution of such amended or supplemental indenture, waiver or consent is authorized or permitted by this Indenture and that all conditions precedent to the effectiveness of such amended or supplemental indenture, waiver or consent have been satisfied.

### ARTICLE IX SUBORDINATION

#### SECTION 9.01 AGREEMENT TO SUBORDINATE.

The Company agrees, and each Holder of Notes by accepting a Note agrees, that the Indebtedness evidenced by the Notes, all Obligations of the Company under this Indenture (including any obligation of the Company to repurchase Notes) and the payment of any Claims are subordinated in right of payment, to the extent and in the manner provided in this Article, to the prior payment in full in cash of all Senior Debt (whether outstanding on the Closing Date or hereafter created, incurred, assumed or guaranteed), and that the subordination is for the benefit of the holders of Senior Debt.

Each Holder of Notes, by the Holder's acceptance thereof, acknowledges and agrees that each holder of any Senior Debt, whether such Senior Debt was created or acquired before or after the issuance of the Notes, shall be deemed conclusively to have relied on the provisions of this Article IX in acquiring and continuing to hold, or in continuing to hold, such Senior Debt.

#### SECTION 9.02 LIQUIDATION; DISSOLUTION; BANKRUPTCY.

Upon or in the event of any distribution to creditors of the Company (i) in a total or partial liquidation or dissolution of the Company; (ii) in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or its property; (iii) in an assignment for the benefit of creditors of the Company; or (iv) in any marshalling of the Company's assets and liabilities:

(A) holders of Senior Debt shall be entitled to receive payment in full in cash of all Obligations due or to become due in respect of such Senior Debt (including interest after the commencement of any such proceeding at the rates specified in the applicable Senior Debt) before the Holders of Notes shall be entitled to receive any payment or distribution with respect to the Notes or on account of any Claim; and

(B) until all Obligations with respect to Senior Debt (as provided in the immediately preceding paragraph (A)) are paid in full in cash, any payment or distribution (including any payment or distribution that may be payable or deliverable by reason of the payment of any other Indebtedness of the

Company being subordinated to the payment of the Notes) to which the Holders of Notes would be entitled but for this Article shall be made to holders of Senior Debt;

except that, in either case, Holders of Notes may receive payments and other distributions made from the trust described in Article VII hereof, as their interests may appear.

SECTION 9.03        DEFAULT ON SENIOR DEBT.

The Company may not make any payment or distribution (including any payment or distribution that may be payable or deliverable by reason of the payment of any other Indebtedness of the Company being subordinated to the payment of the Notes) to the Trustee or any Holder of Notes in respect of Obligations or Claims with respect to the Notes and may not acquire from the Trustee or any Holder of Notes any Notes for cash or property (except that Holders of Notes may receive payments and other distributions made from the trust described in Article VII hereof) until all principal, interest and other Obligations with respect to the Senior Debt have been paid in full in cash if:

(A) a default occurs in the payment when due of the principal of, interest on, or any other Obligation with respect to, any Senior Debt;

(B) a default, other than a payment default, occurs and is continuing with respect to any Senior Debt that permits the holders of Senior Debt as to which such default relates to accelerate its maturity and the Trustee receives a notice of such default (a "Payment Blockage Notice") from the Representative of any Senior Debt.

The Company may and shall resume payments on, and distributions in respect of, the Notes and may acquire them upon:

(1) in the case of a default referred to in Section 9.03 (A) hereof, the date on which such default is cured or waived in accordance with the terms of such Senior Debt, or

(2) in the case of a default referred to in Section 9.03 (B) hereof, the earlier of (x) the date on which such default is cured or waived in accordance with the terms of such Senior Debt, or (y) 179 days after the date on which the applicable Payment Blockage Notice is received by the Trustee, unless the maturity of any Senior Debt has been accelerated.

If the Trustee receives any such Payment Blockage Notice, no new Payment Blockage Notice shall be delivered pursuant to this Section 9.03 unless and until:

(a) 360 days shall have elapsed since the effectiveness of the immediately prior Payment Blockage Notice; and

(b) all scheduled payments of principal of, premium, if any, and interest on the Notes that have come due have been paid in full in cash.

No nonpayment default that existed or was continuing on the date of delivery of any Payment Blockage Notice to the Trustee shall be, or be made, the basis for a subsequent Payment Blockage Notice unless such default shall have been cured or waived for a period of not less than 90 days.

SECTION 9.04 ACCELERATION OF NOTES.

If payment of the Notes is accelerated because of the occurrence of an Event of Default described in clauses (f) or (g) of Section 5.01 hereof, then the Company or the Trustee shall cooperate to promptly notify each Representative of Senior Debt of the acceleration; provided, however, that so long as any Senior Debt is outstanding, any such acceleration shall not become effective, and the Company shall not make, and the Holders of Notes may not accept or receive, any payment with respect to the Notes until the day which is five Business Days after the receipt by Representatives of Senior Debt of written notice of acceleration. Thereafter, the Company may make payments with respect to the Notes only in accordance with the terms of this Indenture.

SECTION 9.05 WHEN DISTRIBUTION MUST BE PAID OVER.

In the event that the Trustee or any Holder of Notes receives any payment or distribution with respect to the Notes at a time when the Trustee or such Holder, as applicable, has actual knowledge that such payment or distribution is prohibited by Section 9.03 or 9.04 hereof, such payment or distribution shall be held by the Trustee or such Holder, in trust for the benefit of, and shall be segregated from other funds and property of the Trustee or such Holder of Notes and be paid forthwith over and delivered in the same form as received (with any necessary endorsement), upon written request, to, the holders of Senior Debt as their interests may appear or their Representative under this Indenture or other agreement (if any) pursuant to which Senior Debt may have been issued, as their respective interests may appear, for application to the payment of all Obligations with respect to Senior Debt remaining unpaid to the extent necessary to pay such Obligations in full in accordance with their terms, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt.

With respect to the holders of Senior Debt, the Trustee undertakes to perform only such obligations on the part of the Trustee as are specifically set forth in this Article IX, and no implied covenants or obligations with respect to the holders of Senior Debt shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Debt, and shall not be liable to any such holders if the Trustee shall pay over or distribute to or on behalf of Holders of Notes or the Company or any other Person money or assets to which any holders of Senior Debt shall be entitled by virtue of this Article IX, except if such payment is made as a result of the willful misconduct or gross negligence of the Trustee.

SECTION 9.06 NOTICE BY COMPANY.

The Company shall promptly notify the Trustee and the Paying Agent of any facts known to an Officer of the Company that would cause a payment of any Obligations with respect to the Notes or of any Claim to violate this Article, but failure to give such notice shall not affect the subordination of the Notes and all Claims to the Senior Debt as provided in this Article.

SECTION 9.07 SUBROGATION.

After all Senior Debt is paid in full in cash and until the Notes are paid in full in cash, Holders of Notes shall be subrogated (equally and ratably with all other Indebtedness that is pari passu with the Notes) to the rights of holders of Senior Debt to receive distributions applicable to Senior Debt to the extent that distributions otherwise payable to the Holders of Notes have been applied to the payment of Senior Debt. A distribution made under this Article to holders of Senior Debt that otherwise would have been made to Holders of Notes is not, as between the Company and Holders of Notes, a payment by the Company on the Notes.

SECTION 9.08 RELATIVE RIGHTS.

This Article defines the relative rights of Holders of the Notes and holders of Senior Debt. Nothing in this Indenture shall:

- (i) impair, as between the Company and Holders of Notes, the obligation of the Company, which is absolute and unconditional, to pay principal of, premium, if any, and interest, if any, on the Notes in accordance with their terms;

(ii) affect the relative rights of Holders of Notes and creditors of the Company other than their rights in relation to holders of Senior Debt; or

(iii) prevent the Trustee or any Holder of Notes from exercising its available remedies upon a Default or Event of Default, subject to the rights of holders and owners of Senior Debt to receive distributions and payments otherwise payable to Holders of Notes.

SECTION 9.09 SUBORDINATION MAY NOT BE IMPAIRED.

No right of any holder of Senior Debt to enforce the subordination of the Indebtedness evidenced by the Notes shall be impaired by any act or failure to act by the Company or the Holders of any Notes or by the failure of the Company or any Holder of Notes to comply with this Indenture.

SECTION 9.10 DISTRIBUTION OR NOTICE TO REPRESENTATIVE.

Whenever a distribution is to be made or a notice given to holders of Senior Debt, the distribution may be made and the notice given to their Representative. Upon any payment or distribution of assets of the Company referred to in this Article IX, the Trustee and the Holders of Notes shall be entitled to rely upon any order or decree made by any court of competent jurisdiction or upon any certificate of such Representative or of the liquidating trustee or agent or other Person making any distribution to the Trustee or to the Holders of Notes for the purpose of ascertaining the Persons entitled to participate in such distribution, the holders of the Senior Debt and other Indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article IX.

SECTION 9.11 RIGHTS OF TRUSTEE AND PAYING AGENT.

Notwithstanding the provisions of this Article IX or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts that would prohibit the making of any payment or distribution by the Trustee, and the Trustee and the Paying Agent may continue to make payments on the Notes, unless the Trustee shall have received at its Corporate Trust Office at least two Business Days prior to the date of such payment written notice of facts that would cause the payment of any Obligations or any Claim with respect to the Notes to violate this Article. Only the Company or a Representative may give the notice.

Nothing in this Article IX shall impair the claims of, or payments to, the Trustee under or pursuant to Section 6.07 hereof. The Trustee in its individual or any other capacity may hold Senior Debt with the same rights it would have if it were not the Trustee. Any Agent may do the same with like rights.

SECTION 9.12 AUTHORIZATION TO EFFECT SUBORDINATION.

Each Holder of Notes by the Holder's acceptance thereof authorizes and directs the Trustee on the Holder's behalf to take such action as may be necessary or appropriate to effect the subordination as provided in this Article IX, and appoints the Trustee to act as the Holder's attorney-in-fact for any and all such purposes. If the Trustee does not file a proper proof of claim or proof of debt in the form required in any proceeding referred to in Section 5.09 hereof at least 30 days before the expiration of the time to file such claim, then the Representative of Senior Debt is hereby authorized to file an appropriate claim for and on behalf of the Holders of the Notes. Nothing herein contained shall be deemed to authorize the Trustee or the holders of Senior Debt or their Representative to authorize or consent to or accept or adopt on behalf of any Holders any plan or reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee or the holders of Senior Debt or their Representative to vote in respect of the claim or any Holder in any such proceeding.

SECTION 9.13 AMENDMENTS.

The provisions of this Article IX shall not be amended or modified except in accordance with Sections 8.01 and 8.02, including, if applicable, the third paragraph of Section 8.02.

SECTION 9.14 MISCELLANEOUS.

(a) The agreement contained in this Article IX shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any Senior Debt is avoided, rescinded or must otherwise be returned by any holder of Senior Debt upon the insolvency, bankruptcy or reorganization of the Company or otherwise, all as though such payment had not been made.

(b) The failure to make a payment on account of principal of, or interest on, or other Obligations relating to, the Notes by reason of any provision of this Article IX shall not be construed as preventing the occurrence of an Event of Default.

ARTICLE X  
MISCELLANEOUS

SECTION 10.01 TRUST INDENTURE ACT CONTROLS.

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by TIA Section 318(c), the imposed duties shall control.

SECTION 10.02 NOTICES.

Any notice or communication by the Company or the Trustee to the other is duly given if in writing and delivered in person or mailed by first class mail (registered or certified, return receipt requested), telecopier or overnight air courier guaranteeing next day delivery, to the other's address:

If to the Company:

United Community Banks, Inc.  
63 Highway 515  
P.O. Box 398  
Blairsville, GA 30514  
Telephone: (706) 781-2265  
Facsimile: (706) 745-8960  
Attention: Thomas C. Gilliland

If to the Trustee:

Marshall & Ilsley Trust Company N.A.  
321 N. Main Street - Lower Level  
P.O. Box 1980  
West Bend, WI 53095  
Attention: Mark Kandel  
Telephone: (262) 335-3032  
Facsimile: (262) 335-3037

Each of the Company and the Trustee, by notice to the others, may designate additional or different addresses for subsequent notices or communications. All notices and communications (other than those sent to Holders) shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; when receipt acknowledged, if telecopied; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

Any notice or communication to a Holder shall be mailed by first class mail, or by overnight air courier guaranteeing next day delivery to its address shown on the register kept by the Registrar. Any notice or communication shall also be so mailed to any Person described in TIA Section 313(c), to the extent required by the

TIA. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the Company mails a notice or communication to Holders, it shall mail a copy to the Trustee and each Agent at the same time.

SECTION 10.03 COMMUNICATION BY HOLDERS OF NOTES WITH OTHER HOLDERS OF NOTES.

Holders may communicate pursuant to TIA Section 312(b) with other Holders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).

SECTION 10.04 CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT.

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(i) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 10.05 hereof) stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been satisfied; and

(ii) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 10.05 hereof) stating that, in the opinion of such counsel, all such conditions precedent and covenants have been satisfied.

SECTION 10.05 STATEMENTS REQUIRED IN CERTIFICATE OR OPINION.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than a certificate provided pursuant to TIA Section 314(a)(4)) shall comply with the provisions of TIA Section 314(e) and shall include:

(i) a statement that the Person making such certificate or opinion has read such covenant or condition;

(ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(iii) a statement that, in the opinion of such Person, he or she has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been satisfied; and

(iv) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been satisfied; provided, however, that, with respect to matters of fact, an opinion of counsel may rely on an officers' certificate or certificates of public officials.

SECTION 10.06 RULES BY TRUSTEE AND AGENTS.



The Trustee may make reasonable rules for action by or at a meeting of Holders. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

SECTION 10.07 NO PERSONAL LIABILITY OF PARTNERS, DIRECTORS, OFFICERS, EMPLOYEES, AND SHAREHOLDERS.

No past, present or future director, officer, employee, incorporator or shareholder of the Company, as such, shall have any liability for any obligations of the Company under the Notes or this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

SECTION 10.08 GOVERNING LAW.

The internal laws of the State of Georgia shall govern and be used to construe this Indenture and the Notes without giving effect to conflicts of laws principles.

SECTION 10.09 NO ADVERSE INTERPRETATION OF OTHER AGREEMENTS.

This Indenture may not be used to interpret any other indenture, loan or debt agreement of the Company or its Subsidiaries or of any other Person. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

SECTION 10.10 SUCCESSORS.

All agreements of the Company in this Indenture and the Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 10.11 SEVERABILITY / INDEPENDENCE OF COVENANTS.

In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. Each covenant or obligation set forth herein shall be independent of the others and any waiver or consent to departure with respect to one covenant shall not be deemed or construed to be a waiver or consent to departure with respect to any other covenant.

SECTION 10.12 COUNTERPART ORIGINALS.

The parties may sign any number of copies of this Indenture by facsimile or otherwise. Each signed copy (including copies signed by facsimile) shall be an original, but all of them together represent the same agreement.

SECTION 10.13 TABLE OF CONTENTS, HEADINGS, ETC.

The Table of Contents, Cross-Reference Table and Headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part of this Indenture and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 10.14 BENEFITS OF INDENTURE

Nothing in this Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto or their successors hereunder, and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

IN WITNESS WHEREOF, the parties have duly executed and delivered this Indenture as of the date and year first written above.

THE COMPANY:

UNITED COMMUNITY BANKS, INC.

By: \_\_\_\_\_

Name:

Title:

By: \_\_\_\_\_

Name:

Title: Secretary

THE TRUSTEE:

MARSHALL & ILSLEY TRUST COMPANY N.A.

By: \_\_\_\_\_

Name:

Title:

By: \_\_\_\_\_

Name:

Title:

EXHIBIT A TO SUBORDINATED INDENTURE

(Face of Subordinated Note)  
Subordinated Step-Up Notes due 2015

No. \_\_\_\_-\_\_\_\_ [\$\_\_\_\_\_]

CUSIP NO. [144A-\_\_\_\_\_]

[Reg S-\_\_\_\_\_]

UNITED COMMUNITY BANKS, INC.

promises to pay to CEDE & CO(1)., or registered assigns,  
the principal sum of \_\_\_\_\_ Dollars (\$\_\_\_\_\_) on  
September 30, 2015. Interest Payment Dates: March 31 and September 30 of each  
year. Record Dates: March 15 and September 15 of each year.

UNITED COMMUNITY BANKS, INC.

(SEAL)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

WITNESS:

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

This is one of the Notes referred to in the within-mentioned Indenture:

Dated: \_\_\_\_\_, 2003

MARSHALL & ILSLEY TRUST COMPANY N.A.,  
AS TRUSTEE

By: \_\_\_\_\_  
Authorized Signatory

-----  
(1) To be included only if the Note is issued in Global Form.

SUBORDINATED STEP-UP NOTES DUE 2015

THIS NOTE IS NOT A DEPOSIT OR AN OBLIGATION OF ANY DEPOSITARY INSTITUTION, IS NOT INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY, AND IS NOT SECURED.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY, OR BY ANY SUCH NOMINEE OF THE DEPOSITARY, OR BY THE DEPOSITARY OR NOMINEE OF A SUCCESSOR DEPOSITARY, OR ANY NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY. TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF CEDE & CO., OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSONS, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER:

(A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), OR (2) IT HAS ACQUIRED THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT;

(B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (1) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S OF THE SECURITIES ACT, (4) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (5) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY), OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION;

(C) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; AND

(D) ACKNOWLEDGES AND AGREES THAT THE COMPANY AND THE TRUSTEE HAVE RESERVED THE RIGHT, PRIOR TO ANY SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER (I) PURSUANT TO CLAUSE (B)(3) PRIOR TO THE END OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, PURSUANT TO RULE 904 OF REGULATION S, OR (II) PURSUANT TO CLAUSE (B)(4) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE UNDER RULE 144, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THIS NOTE BE COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF A HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING.

[THIS NOTE IS A REGULATION S GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE.](2)

["PRIOR TO THE EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), THIS SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A PERSON REASONABLY BELIEVED TO BE A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND THE INDENTURE REFERRED TO HEREIN."](2)

Capitalized terms used herein shall have the meanings assigned to them in the Indenture referred to below unless otherwise indicated.

- - - - -  
(2) To be included only in Regulation S Global Note.

(REVERSE OF SUBORDINATED NOTE)

1. INTEREST. United Community Banks, Inc., a Georgia corporation (the "Company"), promises to pay interest on the principal amount of this Note at the rate of 6.25% per annum from the Issue Date until September 30, 2010, and at the rate of 7.50% per annum thereafter until maturity or earlier redemption. The Company will pay interest semiannually in arrears on March 31 and September 30 of each year, or if any such day is not a Business Day, on the next succeeding Business Day (each an "Interest Payment Date"). Interest on the Notes will accrue from the most recent date on which interest has been paid or, if no interest has been paid, from the date of original issuance; provided, however, that if there is no existing Default in the payment of interest, and if this Note is authenticated between a record date referred to on the face hereof and the next succeeding Interest Payment Date, interest shall accrue from such next succeeding Interest Payment Date; and, provided further, that the first Interest Payment Date shall be September 30, 2003. The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and premium, if any, and interest on overdue installments of interest, to the extent lawful, at a rate per annum equal to the rate of interest applicable to the Notes. All such default interest shall be payable on demand. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

2. METHOD OF PAYMENT. The Company will pay interest on the Notes (except defaulted interest) to the Persons who are registered Holders of Notes at the close of business on March 15 or September 15 immediately preceding the Interest Payment Date, even if such Notes are canceled after such record date and on or before such Interest Payment Date, except as provided in Section 2.14 of the Indenture with respect to defaulted interest. The Notes will be payable as to principal, premium, and interest, if any, at the office or agency of the Company maintained for such purpose or, at the option of the Company, payment of interest, if any, may be made by check mailed to the Holders at their addresses set forth in the register of Holders; provided, however, that payment by wire transfer of immediately available funds will be required with respect to principal of, and premium and interest, if any, on all Global Notes and all other Notes the Holders of which shall have provided appropriate wire transfer instructions to the Company or the Paying Agent. Until otherwise designated by the Company, the Company's office or agency will be the office of the Trustee maintained for such purpose. Such payment shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. PAYING AGENT AND REGISTRAR. Initially, Marshall & Ilsley Trust Company N.A., the Trustee under the Indenture, will act as Paying Agent and Registrar. The Company may change any Paying Agent or Registrar without notice to any Holder. The Company or any of its Subsidiaries may act in any such capacity.

4. INDENTURE. The Company issued this Note under an Indenture dated as of September 30, 2003 (as the same may be amended, modified or supplemented from time to time, the "Indenture") by and between the Company and the Trustee. The terms of the Notes include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (15 U.S. Code Sections 77aaa-77bbbb) (the "TIA"). The Notes are subject to all such terms and Holders are referred to the Indenture and the TIA for a statement of such terms. The Notes are general unsecured obligations of the Company. The Notes include the Original Notes issued on the Closing Date and any Additional Notes issued thereafter, and are treated as a single class of securities under the Indenture. This is one of the [Original] [Additional] Notes referred to in the Indenture. The Holders of Notes are subject to, and entitled to all of the benefits of, the Indenture.

5. REDEMPTION. The Company shall have the option, but not the obligation, to redeem the Notes then outstanding in whole but not in part at par on September 30, 2010, and on every September 30 thereafter through September 30, 2014, as described more fully in Section 2.16 of the Indenture.

6. SUBORDINATION. The Notes are subordinated in right of payment, in the manner and to the extent set forth in the Indenture, to the prior payment in full of all Senior Debt, whether outstanding on the Closing Date or thereafter created, incurred, assumed or guaranteed. Each Holder by its acceptance hereof agrees to be bound by such provisions and authorizes and expressly directs the Trustee, on its behalf, to take such action as may be necessary or appropriate to effectuate the subordination provided for in the Indenture and appoints the Trustee its attorney-in-fact for such purposes.

7. DENOMINATIONS, TRANSFER, EXCHANGE. The Notes are in registered form without interest coupons in denominations of \$1,000 and whole multiples of \$1,000. The transfer of Notes may be registered and Notes may

be exchanged as provided in the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Company may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Company need not exchange or register the transfer of any Note or portion of a Note selected for redemption, except for the unredeemed portion of any Note being redeemed in part. Also, the Company need not exchange or register the transfer of any Notes for a period of 15 days before the date on which a notice of redemption is mailed or during the period between a record date and the corresponding Interest Payment Date.

8. PERSONS DEEMED OWNERS. The registered Holder of a Note may be treated as its owner for all purposes.

9. AMENDMENT, SUPPLEMENT AND WAIVER. Subject to certain exceptions, the Indenture and the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default (other than a Default or Event of Default in the payment of the principal of, premium, if any, or interest, if any, on the Notes, except a payment default resulting from an acceleration that has been rescinded) or compliance with any provision of the Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including consent obtained in connection with a purchase of or tender offer or exchange for Notes). Without the consent of any Holder of a Note, the Indenture or the Notes may be amended or supplemented to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of the Company's obligations to the Holders of the Notes in the case of a merger, consolidation or sale of all or substantially all of the assets of the Company, to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the legal rights under the Indenture of any such Holder, to comply with the requirements of the SEC in order to effect or maintain the qualification of the Indenture under the TIA or to provide for the issuance of Additional Notes.

10. DEFAULTS AND REMEDIES. Events of Default include: (i) default which continues for 30 days in the payment when due of interest on the Notes; (ii) default in payment when due of the principal of or premium, if any, on the Notes; (iii) failure by the Company for 60 days after receipt of notice from the Trustee or Holders of at least 25% in principal amount of the then outstanding Notes to comply with any of its other agreements or obligations in the Indenture or the Notes; (iv) Indebtedness of the Company (other than Indebtedness owed to the Company or any Subsidiary), or any Indebtedness that is Guaranteed by the Company, is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default (or similar event or circumstance) and the total amount of such Indebtedness unpaid or accelerated exceeds \$1.0 million; provided, however, that in the case of any Indebtedness that is accelerated, such acceleration has not been rescinded after 30 days' written notice provided in accordance with the applicable indenture or other debt instrument evidencing such Indebtedness; (v) failure by the Company to pay final judgments for the payment of money (other than judgments that are covered by enforceable insurance policies issued by reputable carriers and as to which such insurance carriers have acknowledged liability in writing) aggregating in excess of \$1.0 million, which judgments are not paid, discharged, bonded or stayed for a period of 60 days after notice thereof has been given by the Trustee or Holders of at least 25% in principal amount of the then outstanding Notes issued under the Indenture; and (vi) certain events of bankruptcy or insolvency with respect to the Company or any Subsidiary or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary. The Trustee must, within 90 days after the occurrence of a Default or Event of Default, give to the Holders notice of all uncured Defaults or Events of Default known to it; provided, however, that except in the case of a Default or Event of Default in payment of any Note, the Trustee may withhold such notice if a committee of its Responsible Officers in good faith determines that the withholding of such notice is in the interest of the Holders and provided further that the Holders of the Notes may not accelerate the maturity of the Notes upon any Event of Default except in the case of an Event of Default arising as the result of the bankruptcy, insolvency, receivership, conservatorship or reorganization of the Company, any Significant Subsidiary that is a bank or any group of Subsidiaries that are banks that, taken together, would constitute a Significant Subsidiary. The Company is required to furnish annually to the Trustee a certificate as to their compliance with the terms of the Indenture.

11. TRUSTEE DEALINGS WITH COMPANY. The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or any Affiliate of the Company, with the same rights it would have if it were not Trustee.

12. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, incorporator or shareholder of the Company, as such, shall have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

13. AUTHENTICATION. This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

14. ABBREVIATIONS. Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

15. CUSIP NUMBERS. Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company has caused CUSIP numbers to be printed on the Notes and the Trustee may use CUSIP numbers in notices of redemption as a convenience to the Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

16. GOVERNING LAW. THE INTERNAL LAW OF THE STATE OF GEORGIA SHALL GOVERN AND BE USED TO CONSTRUCT THE INDENTURE AND THE NOTES WITHOUT GIVING EFFECT TO CONFLICTS OF LAWS PRINCIPLES.

17. DEFINED TERMS. Capitalized terms used but not defined herein have their respective defined meanings as set forth in the Indenture.

18. REQUEST FOR COPY OF INDENTURE. The Company shall furnish to any Holder upon written request and without charge a copy of the Indenture. Requests may be made to:

United Community Banks, Inc.  
63 Highway 515  
P.O. Box 398  
Blairsville, GA 30514  
Telephone: (706) 781-2265  
Facsimile: (706) 745-8960  
Attention: Thomas C. Gilliland



ASSIGNMENT FORM

To assign this Note, fill in the form below:

(I) or (we) assign and transfer this Note to

\_\_\_\_\_  
(Insert assignee's Soc. Sec. or tax I.D. no.)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(Print or type assignee's name, address and zip code)

and irrevocably appoint \_\_\_\_\_ to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Date: \_\_\_\_\_

Your Signature: \_\_\_\_\_  
(Sign exactly as your name appears on the face of this Note)

Signature Guarantee(3): \_\_\_\_\_

- - - - -  
(3) Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

SCHEDULE OF EXCHANGES OF CERTIFICATED SECURITIES

The following exchanges of a part of this Global Note for Certificated Securities have been made:(4)

Date of Exchange	Amount of decrease in Principal Amount of this Global Note	Amount of increase in Principal Amount of this Global Note	Principal Amount of this Global Note following such decrease (or increase)	Signature of authorized signatory of Trustee or Note Custodian
-----	-----	-----	-----	-----

(4) To be included only if the Note is to be issued in Global form.

EXHIBIT B TO SUBORDINATED INDENTURE

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR REGISTRATION OF TRANSFER OF NOTES

Marshall & Ilsley Trust Company N.A., as Trustee

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Re: Subordinated Step-Up Notes due 2015 (the "Notes") issued by United Community Banks, Inc.

This Certificate relates to \$\_\_\_\_\_ principal amount of Notes held in \*\_\_\_\_\_ book-entry or \*\_\_\_\_\_ definitive form by \_\_\_\_\_ (the "Transferor").

The Transferor:

has requested the Trustee by written order to deliver in exchange for its beneficial interest in the Global Note held by the Depository a Note or Notes in definitive, registered form of authorized denominations in an aggregate principal amount equal to its beneficial interest in such Global Note (or the portion thereof indicated above); or

has requested the Trustee by written order to exchange or register the transfer of a Note or Notes.

In connection with such request and in respect of each such Note, the Transferor does hereby certify that Transferor is familiar with the Indenture relating to the above captioned Notes and as provided in Section 2.07 of such Indenture, the transfer of this Note does not require registration under the Securities Act (as defined below) because:\*

Such Note is being acquired for the Transferor's own account, without transfer (in satisfaction of Section 2.07(a)(B)(1) or Section 2.07(d)(i)(A) of the Indenture).

Such Note is being transferred to a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A (in satisfaction, to the extent applicable, of Section 2.07(a)(B)(2), Section 2.07(b)(i)(A) or Section 2.07(d)(i)(B) of the Indenture).

Such Note is being transferred in accordance with Rule 144 under the Securities Act.

Such Note is being transferred in accordance with Rule 904 under the Securities Act.

- -----  
\* Check applicable box.

Such Note is being transferred pursuant to an effective registration statement under the Securities Act (in satisfaction of Section 2.07(a)(B)(2) or Section 2.07(d)(i)(B) of the Indenture).

\_\_\_\_\_  
[INSERT NAME OF TRANSFEROR]

By: \_\_\_\_\_

Date: \_\_\_\_\_

- - - - -  
\*Check applicable box.

EXHIBIT C TO SUBORDINATED INDENTURE  
FORM OF CERTIFICATE TO BE DELIVERED  
IN CONNECTION WITH TRANSFERS PURSUANT TO REGULATION S

\_\_\_\_\_/\_\_\_\_\_  
Marshall & Ilsley Trust Company N.A., as Trustee

\_\_\_\_\_

\_\_\_\_\_

Re: Subordinated Step-Up Notes due 2015 (the "Notes") issued by  
United Community Banks, Inc. (the "Company")

Ladies and Gentlemen:

In connection with our proposed sale of \$\_\_\_\_\_ aggregate principal amount of the Notes, we confirm that such sale has been effected pursuant to and in accordance with Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, accordingly, we represent that:

(1) the offer of the Notes was not made to a person in the United States;

(2) either (a) at the time the buy offer was originated, the transferee was outside the United States or we and any person acting on our behalf reasonably believed that the transaction was executed in, on, or through the facilities of a designated offshore securities market and neither we nor any person acting on our behalf knows that the transaction has been pre-arranged with a buyer in the United States;

(3) no directed selling efforts have been made in the United States in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S, as applicable;

(4) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act;

(5) we have advised the transferee of the transfer restrictions applicable to the Notes;

(6) if the circumstances set forth in Rule 904(b) under the Securities Act are applicable, we have complied with the additional conditions therein, including (if applicable) sending a confirmation or other notice stating that the Securities may be offered and sold during the restricted period specified in Rule 903(b)(2) or (3), as applicable, in accordance with the provisions of Regulation S, pursuant to registration of the Notes under the Securities Act, or pursuant to an available exemption from the registration requirements under the Securities Act; and

(7) if the sale is made during a restricted period and the provisions of Rule 903(b)(3) are applicable thereto, we confirm that such sale has been made in accordance with such provisions.

You and the Company are entitled to rely upon this letter and irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby. Terms used in this certificate have the meanings set forth in Regulation S.

Very truly yours,

(Name of Transferor)

By: \_\_\_\_\_  
Authorized Signature

C-2

Subordinated Step-Up Notes due 2015

No. 001

\$35,000,000

CUSIP NO. 144A-90984P DC 6

UNITED COMMUNITY BANKS, INC.

promises to pay to CEDE & CO., or registered assigns,  
the principal sum of THIRTY-FIVE MILLION  
Dollars (\$35,000,000) on September 30, 2015.  
Interest Payment Dates: March 31 and September 30.  
Record Dates: March 15 and September 15.

UNITED COMMUNITY BANKS, INC.

(SEAL)

By: \_\_\_\_\_  
Name: Rex S. Schuette  
Title: Executive Vice-President and Chief Financial Officer

WITNESS:

By: \_\_\_\_\_  
Name: Thomas C. Gilliland  
Title: Secretary

This is one of the Notes referred to in the within-mentioned Indenture:

Dated: September 24, 2002

MARSHALL & ILSLEY TRUST COMPANY N.A.,  
AS TRUSTEE

By: \_\_\_\_\_  
Authorized Signatory

SUBORDINATED STEP-UP NOTES DUE 2015

THIS NOTE IS NOT A DEPOSIT OR AN OBLIGATION OF ANY DEPOSITORY INSTITUTION, IS NOT INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY GOVERNMENT AGENCY, AND IS NOT SECURED.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY, OR BY ANY SUCH NOMINEE OF THE DEPOSITORY, OR BY THE DEPOSITORY OR NOMINEE OF A SUCCESSOR DEPOSITORY, OR ANY NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY. TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF CEDE & CO., OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE, AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSONS, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER:

(A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB"), OR (2) IT HAS ACQUIRED THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT;

(B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (1) TO THE COMPANY OR ANY OF ITS SUBSIDIARIES, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S OF THE SECURITIES ACT, (4) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (5) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY), OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION;

(C) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; AND



(D) ACKNOWLEDGES AND AGREES THAT THE COMPANY AND THE TRUSTEE HAVE RESERVED THE RIGHT, PRIOR TO ANY SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER (I) PURSUANT TO CLAUSE (B)(3) PRIOR TO THE END OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, PURSUANT TO RULE 904 OF REGULATION S, OR (II) PURSUANT TO CLAUSE (B)(4) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE UNDER RULE 144, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THIS NOTE BE COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF A HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING.

Capitalized terms used herein shall have the meanings assigned to them in the Indenture referred to below unless otherwise indicated.

(REVERSE OF SUBORDINATED NOTE)

1. INTEREST. United Community Banks, Inc., a Georgia corporation (the "Company"), promises to pay interest on the principal amount of this Note at the rate of 6.25% per annum from the Issue Date until September 30, 2010, and at the rate of 7.50% per annum thereafter until maturity or any earlier Redemption Date. The Company will pay interest semiannually in arrears on March 31 and September 30 of each year, or if any such day is not a Business Day, on the next succeeding Business Day (each an "Interest Payment Date"). Interest on the Notes will accrue from the most recent date on which interest has been paid or, if no interest has been paid, from the date of original issuance; provided, however, that if there is no existing Default in the payment of interest, and if this Note is authenticated between a record date referred to on the face hereof and the next succeeding Interest Payment Date, interest shall accrue from such next succeeding Interest Payment Date; and, provided further, that the first Interest Payment Date shall be September 30, 2003. The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and premium, if any, and interest on overdue installments of interest, to the extent lawful, at a rate per annum equal to the rate of interest applicable to the Notes. All such default interest shall be payable on demand. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

2. METHOD OF PAYMENT. The Company will pay interest on the Notes (except defaulted interest) to the Persons who are registered Holders of Notes at the close of business on March 15 or September 15 immediately preceding the Interest Payment Date, even if such Notes are canceled after such record date and on or before such Interest Payment Date, except as provided in Section 2.14 of the Indenture with respect to defaulted interest. The Notes will be payable as to principal, premium, and interest, if any, at the office or agency of the Company maintained for such purpose or, at the option of the Company, payment of interest, if any, may be made by check mailed to the Holders at their addresses set forth in the register of Holders; provided, however, that payment by wire transfer of immediately available funds will be required with respect to principal of, and premium and interest, if any, on all Global Notes and all other Notes the Holders of which shall have provided appropriate wire transfer instructions to the Company or the Paying Agent. Until otherwise designated by the Company, the Company's office or agency will be the office of the Trustee maintained for such purpose. Such payment shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. PAYING AGENT AND REGISTRAR. Initially, Marshall & Ilsley Trust Company N.A., the Trustee under the Indenture, will act as Paying Agent and Registrar. The Company may change any Paying Agent or Registrar without notice to any Holder. The Company or any of its Subsidiaries may act in any such capacity.

4. INDENTURE. The Company issued this Note under an Indenture dated as of September 24, 2003 (as the same may be amended, modified or supplemented from time to time, the "Indenture") by and between the Company and the Trustee. The terms of the Notes include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (15 U.S. Code Sections 77aaa-77bbbb) (the "TIA"). The Notes are subject to all such terms and Holders are referred to the Indenture and the TIA for a statement of such terms. The Notes are subordinated unsecured obligations of the Company. The Notes include the Original Notes issued on the Closing Date and any Additional Notes issued thereafter, and are treated as a single class of securities under the Indenture. This is one of the Original Notes referred to in the Indenture. The Holders of Notes are subject to, and entitled to all of the benefits of, the Indenture.

5. REDEMPTION. The Company shall have the option, but not the obligation, to redeem the Notes then outstanding in whole but not in part at par on September 30, 2010, and on every September 30 thereafter until September 30, 2014, as described more fully in Section 2.16 of the Indenture.

6. SUBORDINATION. The Notes are subordinated in right of payment, in the manner and to the extent set forth in the Indenture, to the prior payment in full of all Senior Debt, whether outstanding on the Closing Date or thereafter created, incurred, assumed or guaranteed. Each Holder by its acceptance hereof agrees to be bound by such provisions and authorizes and expressly directs the Trustee, on its behalf, to take such action as may be necessary or appropriate to effectuate the subordination provided for in the Indenture and appoints the Trustee its attorney-in-fact for such purposes.

7. DENOMINATIONS, TRANSFER, EXCHANGE. The Notes are in registered form without interest coupons in denominations of \$1,000 and whole multiples of \$1,000. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Company may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Company need not exchange or register the transfer of any Note or portion of a Note selected for redemption, except for the unredeemed portion of any Note being redeemed in part. Also, the Company need not exchange or register the transfer of any Notes for a period of 15 days before the date on which a notice of redemption is mailed or during the period between a record date and the corresponding Interest Payment Date.

8. PERSONS DEEMED OWNERS. The registered Holder of a Note may be treated as its owner for all purposes.

9. AMENDMENT, SUPPLEMENT AND WAIVER. Subject to certain exceptions, the Indenture and the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the then outstanding Notes (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default (other than a Default or Event of Default in the payment of the principal of, premium, if any, or interest, if any, on the Notes, except a payment default resulting from an acceleration that has been rescinded) or compliance with any provision of the Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including consent obtained in connection with a purchase of or tender offer or exchange for Notes). Without the consent of any Holder of a Note, the Indenture or the Notes may be amended or supplemented to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of the Company's obligations to the Holders of the Notes in the case of a merger, consolidation or sale of all or substantially all of the assets of the Company, to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the legal rights under the Indenture of any such Holder, to comply with the requirements of the SEC in order to effect or maintain the qualification of the Indenture under the TIA or to provide for the issuance of Additional Notes.

10. DEFAULTS AND REMEDIES. Events of Default include: (i) default which continues for 30 days in the payment when due of interest on the Notes; (ii) default in payment when due of the principal of or premium, if any, on the Notes; (iii) failure by the Company for 60 days after receipt of notice from the Trustee or Holders of at least 25% in principal amount of the then outstanding Notes to comply with any of its other agreements or obligations in the Indenture or the Notes; (iv) Indebtedness of the Company (other than Indebtedness owed to the Company or any Subsidiary), or any Indebtedness that is Guaranteed by the Company, is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default (or similar event or circumstance) and the total amount of such Indebtedness unpaid or accelerated exceeds \$1.0 million; provided, however, that in the case of any Indebtedness that is accelerated, such acceleration has not been rescinded after 30 days' written notice provided in accordance with the applicable indenture or other debt instrument evidencing such Indebtedness; (v) failure by the Company to pay final judgments for the payment of money (other than judgments that are covered by enforceable insurance policies issued by reputable carriers and as to which such insurance carriers have acknowledged liability in writing) aggregating in excess of \$1.0 million, which judgments are not paid, discharged, bonded or stayed for a period of 60 days after notice thereof has been given by the Trustee or Holders of at least 25% in principal amount of the then outstanding Notes issued under the Indenture; and (vi) certain events of bankruptcy or insolvency with respect to the Company or any Subsidiary or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary. The Trustee must, within 90 days after the occurrence of a Default or Event of Default, give to the Holders notice of all uncured Defaults or Events of Default known to it; provided, however, that except in the case of a Default or Event of Default in payment of any Note, the Trustee may withhold such notice if a committee of its Responsible Officers in good faith determines that the withholding of such notice is in the interest of the Holders and provided further that the Holders of the Notes may not accelerate the maturity of the Notes upon any Event of Default except in the case of an Event of Default arising as the result of the bankruptcy, insolvency, receivership, conservatorship or reorganization of the Company, any Significant Subsidiary that is a bank or any group of Subsidiaries that are banks that, taken together, would constitute a Significant Subsidiary. The Company is required to furnish annually to the Trustee a certificate as to their compliance with the terms of the Indenture.

11. TRUSTEE DEALINGS WITH COMPANY. The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or any Affiliate of the Company, with the same rights it would have if it were not Trustee.

12. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, incorporator or shareholder of the Company, as such, shall have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

13. AUTHENTICATION. This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

14. ABBREVIATIONS. Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entirety), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

15. CUSIP NUMBERS. Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company has caused CUSIP numbers to be printed on the Notes and the Trustee may use CUSIP numbers in notices of redemption as a convenience to the Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

16. GOVERNING LAW. THE INTERNAL LAW OF THE STATE OF GEORGIA SHALL GOVERN AND BE USED TO CONSTRUCT THE INDENTURE AND THE NOTES WITHOUT GIVING EFFECT TO CONFLICTS OF LAWS PRINCIPLES.

17. DEFINED TERMS. Capitalized terms used but not defined herein have their respective defined meanings as set forth in the Indenture.

18. REQUEST FOR COPY OF INDENTURE. The Company shall furnish to any Holder upon written request and without charge a copy of the Indenture. Requests may be made to:

United Community Banks, Inc.  
63 Highway 515  
P.O. Box 398  
Blairsville, GA 30514  
Telephone: (706) 781-2265  
Facsimile: (706) 745-8960  
Attention: Thomas C. Gilliland

ASSIGNMENT FORM

To assign this Note, fill in the form below:

(I) or (we) assign and transfer this Note to

\_\_\_\_\_  
(Insert assignee's Soc. Sec. or tax I.D. no.)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(Print or type assignee's name, address and zip code)

and irrevocably appoint \_\_\_\_\_ to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Date: \_\_\_\_\_

Your Signature: \_\_\_\_\_  
(Sign exactly as your name appears on the face of this Note)

Signature Guarantee(1): \_\_\_\_\_

- - - - -  
(1) Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

SCHEDULE OF EXCHANGES OF CERTIFICATED SECURITIES

The following exchanges of a part of this Global Note for Certificated Securities have been made:

Date of Exchange -----	Amount of decrease in Principal Amount of this Global Note -----	Amount of increase in Principal Amount of this Global Note -----	Principal Amount of this Global Note following such decrease (or increase) -----	Signature authorized signatory of Trustee or Note Custodian -----
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AMENDED AND RESTATED  
LOAN AND STOCK PLEDGE AGREEMENT

THIS AMENDED AND RESTATED LOAN AND STOCK PLEDGE AGREEMENT (the "Agreement"), entered into as of June 27, 2003, as amended and restated as of October 30, 2003, between UNITED COMMUNITY BANKS, INC., a Georgia corporation (the "Borrower"), and THE BANKERS BANK, a Georgia Banking corporation (the "Lender").

On June 27, 2003, Borrower and Lender entered into a Loan and Stock Pledge Agreement (the "Original Loan Agreement") pursuant to which the Borrower borrowed the principal amount of up to FORTY MILLION AND NO/100 (\$40,000,000.00) DOLLARS from the Lender (the "Loan"), which Loan is evidenced by the Promissory Note dated June 27, 2003, and amended this date (as amended, the "Note"). The Lender is willing to continue to make the Loan to the Borrower on the terms and conditions described below. The Borrower and Lender agree that the payment and performance of all obligations relating to the Loan will be secured through the pledge to the Lender of all the issued and outstanding shares of capital stock owned or hereafter acquired by the Borrower (collectively the "Stock") in United Community Bank, Murphy, North Carolina, and United Community Bank, Lenoir City, Tennessee, (each a "Bank" and all collectively the "Bank"). Certain capitalized terms used in this Agreement are defined in Section 22 of this Agreement. From and after the date hereof, all references to the "Agreement" or the "Loan Agreement" contained in any of the Financing Documents shall be deemed to be a reference to this Agreement. This Agreement is not intended as a novation of the Loan.

Borrower and Lender desire to amend the Original Loan Agreement in certain respects and to amend and restate the Original Loan Agreement in its entirety. In consideration of the premises and the mutual agreements and representations in this Agreement, the Lender and the Borrower hereby amend and restate the Original Loan Agreement in its entirety and agree as follows:

1. SECURITY INTEREST.

(a) The Borrower hereby unconditionally grants and assigns to the Lender and its successors and assigns a continuing security interest in and security title to the Stock. The Borrower hereby delivers to the Lender all of its right, title and interest in and to the Stock, together with certificates representing the Stock and stock powers endorsed in blank, as security for (i) all obligations of the Borrower to the Lender hereunder, and (ii) payment and performance of all obligations of the Borrower to the Lender under the Note, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due. If the Borrower receives, for any reason whatsoever, any additional shares of the capital stock of the Bank, such shares shall thereupon constitute Stock to be held by the Lender under the terms of this Agreement and the Borrower shall immediately deliver such shares to the Lender, together with stock powers endorsed in blank by the Borrower. Beneficial ownership of the Stock, including all voting, consensual and dividend rights, shall remain in the Borrower until the occurrence of a Default.

(b) If, prior to repayment in full of the Loan, the aggregate book value of the Stock becomes \$80,000,000.00 or less, the Borrower shall promptly deliver to the Lender on demand additional collateral of a type and value acceptable to the Lender (and the Lender's judgment in valuing same shall be conclusive) so that the sum of the value of such additional collateral plus the aggregate book value of the Stock is at all times equal to or in excess of \$80,000,000.00. The Borrower shall also execute any security documents the Lender may request to evidence and perfect the Lender's rights in such additional collateral. If at any time such additional collateral is no longer required pursuant to this Section 1(b), the Lender shall release its security interest in such additional collateral upon the request of the Borrower, subject to the Lender's right to subsequently demand additional collateral, including, without limitation, additional collateral previously released.

2. REPRESENTATIONS AND WARRANTIES. The Borrower represents and warrants to the Lender as follows:

(a) The Borrower is a corporation duly organized, validly existing, and in good standing under the laws of the State of Georgia and is qualified to do business in all jurisdictions where such qualification is necessary. The Borrower is registered as a Bank holding company with the Board of Governors of the Federal Reserve System and the Georgia Department of Banking and Finance. The chief executive office of the Borrower and the principal place of business of the Borrower where the records of the Borrower are kept are located at 59 Highway 515, Blairsville, Georgia 30512-0398, and the Borrower's U.S. employer identification number is 58-1807304. The Bank has all requisite corporate power and authority and possesses all licenses, permits and authorizations necessary for it to own its properties and conduct its business as presently conducted.

(b) Each Bank is a Banking corporation duly organized, validly existing, and in good standing under the laws of the State in which it is located. The Borrower owns all the Stock (consisting of 100% of all stock issued by United Community Bank, Murphy, North Carolina; United Community Bank, Lenoir City, Tennessee) and there are no other outstanding shares of capital stock and no outstanding options, warrants or other rights which can be converted into shares of capital stock of the Bank. Each Bank has all requisite corporate power and authority and possesses all licenses, permits and authorizations necessary for it to own its properties and conduct its business as presently conducted.

(c) Each financial statement of the Borrower or any Subsidiary which has been delivered to the Lender presents fairly the financial condition of the Borrower or such Subsidiary as of the date indicated therein and the results of its operations for the periods shown therein. There has been no material adverse change, either existing or threatened, in the financial condition or operations of the Borrower or any Subsidiary since the date of the most recent such financial statement.

(d) The Borrower has full power and authority to execute and perform the Financing Documents. The execution, delivery, and performance by the Borrower of the Financing Documents (i) have been duly authorized by all requisite action by the Borrower, (ii) do not violate any provision of law, and (iii) do not result in a breach of or constitute a default under any agreement or other instrument to which the Borrower or any Subsidiary is a party or which the Borrower or any Subsidiary is bound. Each of the Financing Documents constitutes the legal, valid, and binding obligation of the Borrower enforceable in accordance with its terms.

(e) Except for the security interest created by this Agreement, the Borrower owns the Stock free and clear of all liens, charges, and encumbrances. The Stock is duly issued, fully paid and non-assessable, and the Borrower has the unencumbered right to pledge the Stock.

(f) There is no action, arbitration, or other proceeding at law or in equity, or by or before any court, agency, or arbitrator, nor is there any judgment, order, or other decree pending, anticipated, or threatened against the Borrower or any Subsidiary or against any of their properties or assets which might have a material adverse effect on the Borrower, any Subsidiary, or their respective properties or assets, or which might call into question the validity or enforceability of the Financing Documents, or which might involve the alleged violation by the Borrower or any Subsidiary of any law, rule or regulation or judgment order or decree binding on Borrowers or any subsidiary on their respective property or assets.

(g) No consent or notice to or other authorization or filing with or of any governmental authority or other public body on the part of the Borrower or any Subsidiary is required in connection with the Borrower's execution, delivery, or performance of the Financing Documents; or if required, all such prerequisites have been fully satisfied.

(h) None of the transactions contemplated in this Agreement (including, without limitation, the use of the proceeds of the Loan) will violate or result in a violation of Section 7 of the Securities Exchange Act of 1934, or any regulations issued pursuant thereto.

(i) The following are attached as exhibits hereto: true, correct and complete copies of (i) the Borrower's and each Bank's articles of incorporation as in effect as of the date here (as certified



by the Georgia Secretary of State or other State of corporate domicile on June 25, 2002; (ii) certificates of existence for the Borrower and each Bank issued by the Georgia Secretary of State or other State of corporate domicile on June 25, 2002; (iii) the bylaws of the Borrower in effect immediately prior to the adoption of the resolutions referred to below (and such bylaws have not been further altered or amended and have been in full force and effect at all times since the adoption of such resolutions through the date hereof); (iv) the bylaws of each Bank as of the date hereof; and (v) resolutions (the "Resolutions") of the Board of Directors of the Borrower duly adopted at a meeting duly called and held on October 23, 2003. A quorum for the transaction of business was present and acting throughout the meeting at which the Resolutions were adopted, and the Resolutions have been since adoption and are now in full force and effect and have not been modified or rescinded in any respect. There have been no further amendments or other documents affecting or altering the Borrower's or each Bank's articles of incorporation since the date of the certifications referred to above through the date hereof, and the Borrower and each Bank have remained in valid existence under the laws of the State of Georgia since such dates.

3. AFFIRMATIVE COVENANTS. The Borrower agrees that so long as the Note is outstanding or this Agreement is in effect, or any portion of the loan remains unpaid:

(a) The Borrower shall promptly furnish to the Lender: (i) not later than 120 days after the end of each fiscal year, audited consolidated financial statements of the Borrower prepared in accordance with generally accepted accounting principles ("GAAP") and certified by an independent accounting firm acceptable to the Lender; (ii) not later than 45 days after each of the first three quarters of each fiscal year, unaudited consolidated financial statements of the Borrower, prepared in accordance with GAAP (subject to changes resulting from normal year-end adjustments) and certified by the chief financial officer of the Borrower; (iii) not later than 30 days after the end of each of the first three quarters of each year, copies of the Report of Condition and the Report of Income and Dividends of each of the Bank Subsidiaries; (iv) immediately after the occurrence of a material adverse change in the business, properties, condition, management, or prospects (financial or otherwise) of the Borrower, including, without limitation, imposition of any memorandum of understanding, cease and desist order, or other similar regulatory action involving the Borrower or any Bank Subsidiary, a statement of the Borrower's chief executive officer or chief financial officer setting forth in reasonable detail such change and the action which the Borrower or any Bank Subsidiary proposes to take with respect thereto; and (v) from time to time upon request of the Lender, such other information relating to the operations, business, condition, management, properties, or prospects of the Borrower or any Bank Subsidiary as the Lender may request (including meetings with the Borrower's or Bank Subsidiary's officers and employees).

(b) The Borrower and each Subsidiary shall punctually pay and discharge all taxes, assessments and other governmental charges or levies imposed upon it or upon its income or upon any of its property, unless the Borrower is contesting such a charge or levy and has made adequate reserves therefor.

(c) The Borrower and each Subsidiary shall comply in all material respects with all requirements of constitutions, statutes, rules, regulations, and orders and all orders and decrees of courts and arbitrators applicable to it or its properties.

(d) The Borrower shall immediately notify the Lender of any change in the Chief Executive Officer or any Executive Vice President of the Borrower.

4. NEGATIVE COVENANTS. The Borrower agrees that so long as the Note is outstanding or this Agreement is in effect:

(a) The Borrower shall not permit its Capital at any time during the term of this Agreement to be less than \$80,000,000.00.

(b) The Borrower shall not permit the ratio of Tier 1 Capital to average total assets (the Tier 1 Leverage Ratio) of the Borrower or any of the Bank Subsidiaries as of the end of any fiscal year to be less than 6.00%.

(c) The Borrower shall not permit the Total Risk Based Ratio of the Borrower or any of the Bank Subsidiaries as of the end of any fiscal year to be less than 9.00%.

(d) The Borrower shall not, and shall not permit any of the Bank Subsidiaries to, fail to comply with any minimum capital requirement imposed by any of their federal or state regulators.

(e) The Borrower shall not permit the Allowance for Loan and Lease Losses to fall below 200.0% of Non-Performing Loans for the Borrower and each Bank Subsidiary. Loan Review Reports will be required should the Borrower become noncompliant.

(f) The Borrower shall not permit the allowance for loan and lease losses of any of the Bank Subsidiaries to be less than 1.00% of its gross loans for each year-end.

(g) The Borrower shall not (i) enter into a Change of Control transaction; (ii) purchase or otherwise acquire all or substantially all of the assets or stock of another Person (which Person would, upon the consummation of such transaction, become a Bank Subsidiary), if, as a result of the transaction, the total assets of the Borrower and all of its Subsidiaries increase by more than 33%; or (iii) purchase or otherwise acquire all or substantially all of the assets or stock of any Person (which Person would not, upon the consummation of such transaction, become a Bank Subsidiary) if the total revenue of such Person, as determined in accordance with GAAP, is more than 20% of the Borrower's total revenue in the immediately preceding fiscal year, which, solely for purposes of this Section 4(g), total revenue shall equal the net interest income of the Borrower plus the non interest income of the Borrower, each for the immediately preceding fiscal year and each determined in accordance with GAAP.

(h) The Borrower shall not without written notification to Lender given within 30 days of the date of any signed agreement, and in all events at least 60 days prior to the closing of any such transaction, issue, create, incur, assume or otherwise become liable with respect to (or agree to issue, create, incur, assume or otherwise become liable with respect to), or permit to remain outstanding, any indebtedness, except: (i) indebtedness disclosed on the Borrower's most recent financial statements, provided that such indebtedness shall not be renewed, extended or increased; (ii) indebtedness to M&I Marshall & Ilsley Bank or Compass Bank under the Credit Agreement in an amount not to exceed \$45,000,000; (iii) indebtedness for commercial paper of the Borrower in an amount not to exceed \$40,000,000; (iv) Federal Home Loan bank indebtedness or federal funds indebtedness incurred in the ordinary course of business by any Bank Subsidiary; and (v) indebtedness with respect to deposit accounts or similar accounts, including repurchase agreements.

(i) The Borrower shall not, directly or indirectly, become a guarantor of any obligation of, or an endorser of, or otherwise assume or become liable upon any notes, obligations, or other indebtedness of any other Person (other than a Subsidiary) except in connection with the depositing of checks in the normal and ordinary course of business.

(j) The Borrower shall not permit any Subsidiary to issue, sell or otherwise dispose of or part with control of any shares of any class of its stock (other than directors' qualifying shares) except to the Borrower or a wholly-owned Subsidiary of the Borrower.

(k) The Borrower shall not sell or otherwise dispose of or part with control of any of the Stock or any other securities or indebtedness of any Subsidiary.

(l) Without the prior written consent of the Lender, to be given or withheld in Lender's sole discretion, the Borrower shall not, and shall not permit any of the Bank Subsidiaries to grant a security interest in or pledge any assets to any other Person or to transfer or dispose of any material portion of or interest in the assets of each Bank to any other Person, except for (x) pledges of assets of each Bank as security for indebtedness owed to the Lender or indebtedness permitted by Section 4(h)(i), (iii), (iv) and (v); (y) pledges of assets of Bank Subsidiaries other than a Bank as security for indebtedness permitted by Section 4(h); and (z) pledges of assets of Bank Subsidiaries as security for

government deposits, repurchase agreements and other transactions in the ordinary course of business, consistent with historical practices of the Borrower and the Bank Subsidiaries.

(m) The Borrower shall not pay any cash dividends if the Loan is in Default or if the payment of such dividend would create a Default, or during any notice or cure period.

(n) The Borrower shall not permit its Return on Average Assets at the end of any fiscal year to be less than .60%. This Return will be calculated by dividing the Net Income of the Borrower for the previous year, excluding the effect of interest on this loan, by the Consolidated Average Assets of the Borrower for the previous year.

(o) Maximum Loan to Value shall not exceed 50% at all times.

(p) The Borrower shall maintain the separate existence of each Bank and only acquire any new Bank Subsidiary as a separate Bank Subsidiary or by a merger or consolidation into any Bank Subsidiary.

5. ADVANCES UNDER THE LOAN. The Lender shall not be obligated to make any advance of the Loan to the Borrower, unless in each instance, at the time of each advance:

(a) All representations and warranties of the Borrower contained in this Agreement or the Note shall be true in all respects.

(b) The Borrower and each Subsidiary shall have performed in all material respects all their agreements and obligations required by the Financing Documents.

(c) No material adverse change shall have occurred in the Borrower's or any Subsidiary's condition (financial or otherwise), or in the business, properties, assets, liabilities, prospects, or management of the Borrower or any Subsidiary since the date of this Agreement.

(d) No Default or event which, with the giving of notice or passage of time (or both), would constitute a Default under the terms of this Agreement shall have occurred.

(e) All other matters incidental to the Loan shall be satisfactory to the Lender.

(f) All fundings over Lender's legal lending limit at the time of any advance, \$17,000,001 at the date hereof, shall be subject to the express condition provided that Lender has been able to obtain participation commitments from respondent banks in amounts sufficient to assure compliance with regulatory requirements. The amount subject to sale may be adjusted from time to time based upon the Lender's legal lending limit.

6. DEFAULT. A "Default" shall exist if any of the following occurs:

(a) Failure of the Borrower punctually to make any payment of any amount payable, whether principal or interest or other amount, on any of the Liabilities, whether at maturity, or at a date fixed for any prepayment or partial prepayment, or by acceleration, or otherwise.

(b) Any statement, representation, or warranty of the Borrower made in any of the Financing Documents or at any time furnished by or on behalf of the Borrower to the Lender shall be false or misleading in any material respect as of the date made.

(c) Failure of the Borrower punctually and fully to comply with any of the covenants in Section 4, with exception to covenants (a), (b), and (c), of this Agreement or any of the other covenants set forth in this Agreement if such failure under this clause is not remedied within 15 days, this being the cure period, after notice from the Lender to the Borrower. Failure of the Borrower punctually and fully to comply with covenants (a), (b), and (c) of Section 4 of this Agreement if such failure under this clause is

not remedied by the end of the subsequent quarter, this being the cure period, after notice from the Lender to the Borrower.

(d) The occurrence of a default under any other agreement to which the Borrower and the Lender are parties or under any other instrument executed by the Borrower in favor of the Lender.

(e) If the Borrower or any Subsidiary becomes insolvent as defined in the Georgia Uniform Commercial Code or makes an assignment for the benefit of creditors; or if any action is brought by the Borrower or any Subsidiary seeking dissolution of the Borrower or such Subsidiary or liquidation of its assets or seeking the appointment of a trustee, interim trustee, receiver, or other custodian for any of its property; or if the Borrower or any Subsidiary commences a voluntary case under the Federal Bankruptcy Code; or if any reorganization or arrangement proceeding is instituted by the Borrower or any Subsidiary for the settlement, readjustment, composition or extension of any of its debts upon any terms; or if any action or petition is otherwise brought by the Borrower or any Subsidiary seeking similar relief or alleging that it is insolvent or unable to pay its debts as they mature.

(f) Any action is brought against the Borrower or any Subsidiary seeking dissolution of the Borrower or such Subsidiary or liquidation of any of its assets or seeking the appointment of a trustee, interim trustee, receiver, or other custodian for any of its property, and such action is consented to or acquiesced in by the Borrower or such Subsidiary or is not dismissed within 30 days of the date upon which it was instituted; or any proceeding under the Federal Bankruptcy Code is instituted against the Borrower or any Subsidiary and (i) an order for relief is entered in such proceeding or (ii) such proceeding is consented to or acquiesced in by the Borrower or such Subsidiary or is not dismissed within 30 days of the date upon which it was instituted; or any reorganization or arrangement proceeding is instituted against the Borrower or any Subsidiary for the settlement, readjustment, composition, or extension of any of its debts upon any terms, and such proceeding is consented to or acquiesced in by the Borrower or such Subsidiary or is not dismissed within 30 days of the date upon which it was instituted; or any action or petition is otherwise brought against the Borrower or any Subsidiary seeking similar relief or alleging that it is insolvent, unable to pay its debts as they mature, or generally not paying its debts as they become due, and such action or petition is consented to or acquiesced in by the Borrower or such Subsidiary or is not dismissed within 30 days of the date upon which it was brought.

(g) The Borrower or any Subsidiary is in default (or an event has occurred which, with the giving of notice or passage of time, or both, will cause the Borrower or any Subsidiary to be in default) on indebtedness to another Person, and the amount of such indebtedness exceeds \$25,000 or the acceleration of the maturity of such indebtedness would have a material adverse effect upon the Borrower or such Subsidiary, unless the Borrower or any Subsidiary is contesting such default in good faith.

(h) Any other material adverse change occurs in the Borrower's financial condition or means or ability to pay the Liabilities.

(i) Any cease and desist or other order has been threatened, noticed, or entered against the Borrower or any Subsidiary by any Bank or Bank holding company regulatory agency or body, or the Borrower or any Subsidiary enters into any form of memorandum of understanding, plan of corrective action, or letter agreement with any such regulatory agency or body, or any other regulatory enforcement action is taken against the Borrower or any Subsidiary relating to the capitalization, management, or operation of the Borrower or any Subsidiary.

(j) The Borrower or any Subsidiary is indicted or convicted or pleads guilty or nolo contendere to any charge that the Borrower or such Subsidiary has violated any drug, controlled substances, money laundering, currency reporting, racketeering, or racketeering-influenced-and-corrupt-organization statute or regulations other forfeiture statute.

(k) The Borrower ceases to own 100% of the issued and outstanding capital stock of each Bank or ceases to control any of the other Bank Subsidiaries.

7. REMEDIES UPON DEFAULT. Upon the occurrence of a Default, the Lender shall be entitled, without limitation, to exercise the following rights at any time and from time to time, which the Borrower hereby agrees to be commercially reasonable:

(a) declare any of the Liabilities due and payable, whereupon they immediately will become due and payable (notwithstanding any provisions to the contrary, and without presentment, demand, notice or protest of any kind (all of which are expressly waived by the Borrower));

(b) (i) receive all amounts payable in respect of the Collateral otherwise payable to the Borrower; (ii) settle all accounts, claims, and controversies relating to the Collateral; (iii) transfer all or any part of the Collateral into the Lender's or any nominee's name; and (iv) execute all agreements and other instruments; bring, defend and abandon all actions and other proceedings; and take all actions in relation to the Collateral as the Lender in its sole discretion may determine;

(c) enforce the payment of the Stock and exercise all of the rights, powers and remedies of the Borrower thereunder, including the exercise of all voting rights and other ownership or consensual rights of the Stock (but the Lender is not hereby obligated to exercise such rights), and in connection therewith the Borrower hereby appoints the Lender to be the Borrower's true and lawful attorney-in-fact and IRREVOCABLE PROXY to vote the Stock in any manner the Lender deems advisable for or against all matters submitted to a vote of shareholders, and such power-of-attorney is coupled with an interest and irrevocable;

(d) sell, assign and deliver, or grant options to purchase, all or any part of or interest in the Collateral in one or more parcels, at any public or private sale at any exchange, any of the Lender's offices, or elsewhere, without demand of performance, advertisement, or notice of intention to sell or of the time or place of sale or adjournment thereof or to redeem or otherwise (all of which are hereby expressly and irrevocably waived by the Borrower), for cash, on credit, or for other property, for immediate or future delivery without any assumption of credit risk, and for such price and on such terms as the Lender in its sole discretion may determine; the Borrower agrees that to the extent that notice of sale shall be required by law that at least five business days' notice to the Borrower of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification; the Lender shall not be obligated to make any sale of Collateral regardless of notice of sale having been given; the Lender may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and any such sale may, without further notice, be made at the time and place to which it was so adjourned; the Borrower hereby waives and releases to the fullest extent permitted by law any right or equity of redemption with respect to the Collateral, whether before or after sale hereunder, and all rights, if any, of marshalling the Collateral and any other security for the Loan or otherwise; at any such sale, unless prohibited by applicable law, the Lender may bid for and purchase all or any part of the Collateral so sold free from any such right or equity of redemption; and the Lender shall not be liable for failure to collect or realize upon any or all of the Collateral or for any delay in so doing nor shall any of them be under any obligation to take any action whatsoever with regard thereto;

(e) appoint and dismiss managers or other agents for any of the purposes mentioned in the foregoing provisions of this Section 7, all as the Lender in its sole discretion may determine but Lender shall have no obligation to do so; and

(f) generally, take all such other action as the Lender in its sole discretion may determine as incidental or conducive to any of the matters or powers mentioned in this Section 7 and which the Lender may or can do lawfully and use the name of the Borrower for such purposes and in any proceedings arising therefrom.

8. APPLICATION OF PROCEEDS. The proceeds of the public or private sale or other disposition of any Collateral hereunder shall be applied to (i) the costs incurred in connection with the sale, expressly including, without limitation, any costs under Section 11(a) hereof; (ii) any unpaid interest which may have accrued on any obligations secured hereby; (iii) any unpaid principal on any obligations secured hereby; and (iv) damages incurred by the Lender by reason of any breach secured against hereby, in such

order as the Lender may determine, and any remaining proceeds shall be paid over to the Borrower or others as by law provided. If the proceeds of the sale or other disposition of the Collateral are insufficient to pay all such amounts, the Borrower shall remain liable to the Lender for the deficiency.

9. **ADDITIONAL RIGHTS OF SECURED PARTIES.** In addition to its other rights and privileges under this Agreement, the Lender may exercise from time to time any and all other rights and remedies available to a secured party when a debtor is in default under a security agreement as provided in the Uniform Commercial Code of Georgia, or available to the Lender under any other applicable law or in equity, including without limitation the right to any deficiency remaining after disposition of the Collateral. The Borrower shall pay all of the reasonable costs and expenses (including reasonable attorneys' fees) incurred by the Lender in enforcing its rights under this Agreement.

10. **RETURN OF STOCK TO BORROWER.** Upon payment in full of all principal and interest on the Note and full performance by the Borrower of all covenants and other obligations under this Agreement, and other Financing Documents, the Lender shall return to the Borrower (i) all of the then remaining Stock and (ii) all rights received by the Lender as agent for the Borrower as a result of its possessory interest in the Stock.

11. **DISPOSITION OF STOCK BY AGENT.** The Stock is not registered under the various federal or state securities laws and disposition thereof after default may be subject to prior regulatory approval and may be restricted to one or more private (instead of public) sales in view of the lack of such registration. The Borrower acknowledges that upon such disposition, the Lender may approach only a restricted number of potential purchasers and that a sale under such circumstances may yield a lower price for the Stock than if the Stock were registered pursuant to federal and state securities laws and sold on the open market. The Borrower, therefore, agrees that:

(a) if the Lender shall, pursuant to the terms of this Agreement, sell or cause any of the Stock to be sold at a private sale, the Lender shall have the right to rely upon the advice and opinion of any national brokerage or investment firm having recognized expertise and experience in connection with shares of companies in the Banking industry (but shall not be obligated to seek such advice and the failure to do so shall not be considered in determining the commercial reasonableness of the Lender's action) as to the best manner in which to expose the Stock for sale and as to the best price reasonably obtainable at the private sale thereof; and

(b) such reliance shall be conclusive evidence that the Lender has handled such disposition in a commercially reasonable manner.

12. **BORROWER'S OBLIGATIONS ABSOLUTE.** The obligations of the Borrower under this Agreement shall be direct and immediate and not conditional or contingent upon the pursuit of any other remedies against the Borrower or any other Person, nor against other security or liens available to the Lender or its successors, assigns or agents. The Borrower hereby waives any right to require that an action be brought against any other Person or require that resort be had to any security or to any balance of any deposit account or credit on the books of the Lender in favor of any other Person prior to any exercise of rights or remedies hereunder, or to require resort to rights or remedies of the Lender in connection with the Loan.

13. **NOTICES.** Except as provided otherwise in this Agreement, all notices and other communications under this Agreement are to be in writing and are to be deemed to have been duly given and to be effective upon delivery to the party to whom they are directed. If sent by U.S. mail, first class, certified, return receipt requested, postage prepaid, and addressed to the Lender or to the Borrower at their respective addressees set forth below, such communications are deemed to have been delivered on the second business day after being so posted.

If to the Lender:                   The Bankers Bank  
2410 Paces Ferry Road  
600 Paces Summit  
Atlanta, Georgia 30339-4098  
Attn: Credit Administration

If to the Borrower:               United Community Banks, Inc.  
59 Highway 515  
P.O. Box 398  
Blairsville, Georgia 30512-0398  
Attn: Jimmy Tallent

Either the Lender or the Borrower may, by written notice to the other, designate a different address for receiving notices under this Agreement; provided, however, that no such change of address will be effective until written notice thereof is actually received by the party to whom such change of address is sent.

14.        **BINDING AGREEMENT.** The provisions of this Agreement shall be construed and interpreted, and all rights and obligations of the parties hereto determined, in accordance with the laws of the State of Georgia without regard to conflicts of law principles. This Agreement, together with all documents referred to herein, constitutes the entire Agreement between the Borrower and the Lender with respect to the matters addressed herein and may not be modified except by a writing executed by the Lender and delivered by the Lender to the Borrower. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original but all of which, taken together, shall constitute one and the same instrument.

15.        **PARTICIPATIONS.** The Lender may at any time grant participations in or sell, assign, transfer or otherwise dispose of all or any portion of the indebtedness of the Borrower outstanding pursuant to the Financing Documents. The Borrower hereby agrees that any holder of a participation in, and any assignee or transferee of, all or any portion of any amount owed by the Borrower under the Financing Documents (i) shall be entitled to the benefits of the provisions of this Agreement as the Lender hereunder and (ii) may exercise any and all rights of the Banker's lien, set-off or counterclaim with respect to any and all amounts owed by the Borrower to such assignee, transferee or holder as fully as if such assignee, transferee or holder had made the Loan in the amount of the obligation in which it holds a participation or which is assigned or transferred to it.

16.        **EXPENSES.** All reports and other documents or information furnished to the Lender under this Agreement shall be supplied by the Borrower without cost to the Lender. Further, the Borrower shall reimburse the Lender on demand for all out-of-pocket costs and expenses (including reasonable legal fees) incurred by the Lender in connection with the preparation, interpretation, operation, and enforcement of the Financing Documents or the protection or preservation of any right or claim of the Lender with respect to such agreements. The Borrower will pay all taxes (if any) in connection with the Financing Documents. The obligations of the Borrower under this section shall survive the payment of the Liabilities and the termination of this Agreement.

17.        **INDEMNIFICATION.** In addition to any other amounts payable by the Borrower under this Agreement, the Borrower shall pay and indemnify the Lender from and against all claims, liabilities, losses, costs, and expenses (including, without limitation, reasonable attorneys' fees and expenses) which the Lender may (other than as a result of the gross negligence or willful misconduct of the Lender) incur or be subject to as a consequence, directly or indirectly, of (i) any breach by the Borrower of any warranty, term or condition in, or the occurrence of any default under, any of the Financing Documents, including all fees or expenses resulting from the settlement or defense of any claims or liabilities arising as a result of any such breach or default, (ii) the Lender's making, holding, or administering the Loan or the Collateral, (iii) allegations of participation or interference by the Lender in the management, contractual relations or other affairs of the Borrower or any Subsidiary, (iv) allegations that the Lender

has joint liability with the Borrower or any Subsidiary for any reason, and (v) any suit, investigation, or proceeding as to which the Lender or such participant is involved as a consequence, directly or indirectly, of its execution of any of the Financing Documents, or any other event or transaction contemplated by any of the foregoing. The obligations of Borrower under this Section 17 shall survive the termination of this Agreement.

18. RIGHT TO SET-OFF. Upon the occurrence of a Default hereunder, the Lender, without notice or demand of any kind, may hold and set off against such of the Liabilities (whether matured or unmatured) as the Lender may elect any balance or amount to the credit of the Borrower in any deposit, agency, reserve, holdback or other account of any nature whatsoever maintained by or on behalf of the Borrower with the Lender at any of its offices, regardless of whether such accounts are general or special and regardless of whether such accounts are individual or joint. Any Person purchasing an interest in debt obligations under this Agreement held by the Lender may exercise all rights of offset with respect to such interest as fully as if such Person were a holder of debt obligations hereunder in the amount of such interest.

19. FURTHER ASSURANCES. If at any time the Lender upon advice of its counsel shall determine that any further document shall be required to effect this Agreement and the transactions and other agreements contemplated thereby, the Borrower shall, and shall cause its Subsidiaries to, execute and deliver such document and otherwise carry out the purposes of this Agreement.

20. SEVERABILITY. If any paragraph or part thereof shall for any reason be held or adjudged to be invalid, illegal, or unenforceable by any court of competent jurisdiction, such paragraph or part thereof shall be deemed separate, distinct, and independent, and the remainder of this Agreement shall remain in full force and effect and shall not be affected by such holding or adjudication.

21. BINDING EFFECT. All rights of the Lender under the Financing Documents shall inure to the benefit of its transferees, successors and assigns. All obligations of the Borrower under the Financing Documents shall bind its heirs, legal representatives, successors, and assigns.

22. DEFINITIONS.

(a) "Bank Subsidiaries" means each Banking Subsidiary of Borrower, now or hereafter in existence, including but not limited to each Bank.

(b) "Capital" means all capital or all components of capital, other than any allowance for loan and lease losses and net of any intangible assets, as defined from time to time by the primary federal regulator of the Borrower, each Bank, or each of the other Bank Subsidiaries (as the case may be).

(c) "Change of Control" shall mean (a) the acquisition by any Person, or two or more Persons acting in concert, of the beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 20% or more of the outstanding shares of voting ownership interests of the Borrower; provided, however, that the acquisition by any Person, or two or more Persons, of the beneficial ownership of 20% or more of the outstanding shares of the Borrower in connection with the acquisition by the Borrower of any company in which such Person or Persons are shareholders shall not be a "Change in Control" provided that such Person or Persons do not in the aggregate acquire more than 45% of such outstanding shares, or (b) the lease, sale or transfer or other disposition of all or substantially all of the assets of the Borrower or any Subsidiary in one or a series of transactions to any Person, or two or more Persons acting in concert.

(d) "Collateral" means and includes all property assigned or pledged to the Lender or in which the Lender has been granted security interest or to which the Lender has been granted security title, whether under any of the Financing Documents or any other agreement, instrument, or document, and the proceeds thereof.



(e) "Financing Documents" means and includes this Agreement, the Note, and all other associated loan and collateral documents including, without limitation, all guaranties, suretyship agreements, stock powers, security agreements, security deeds, subordination agreements, exhibits, schedules, attachments, financing statements, notices, consents, waivers, opinions, letters, reports, records, assignments, documents, instruments, information and other writings related thereto, or furnished by the Borrower to the Lender in connection therewith or in connection with any of the Collateral, and any amendments, extensions, renewals, modifications or substitutions thereof or therefor.

(f) "Liabilities" means all indebtedness, liabilities, and obligations of the Borrower of any nature whatsoever which the Lender may now or hereafter have, own or hold, and which are now or hereafter owing to the Lender regardless of however and whenever created, arising or evidenced, whether now, heretofore or hereafter incurred, whether now, heretofore or hereafter due and payable, whether alone or together with another or others, whether direct or indirect, primary or secondary, absolute or contingent, or joint or several, and whether as principal, maker, endorser, guarantor, surety or otherwise, and also regardless of whether such Liabilities are from time to time reduced and thereafter increased or entirely extinguished and thereafter reincurred, including without limitation the Note and any amendments, extensions, renewals, modifications or substitutions thereof or therefor.

(g) "Note" shall mean the promissory note dated June 27, 2003 and amended the date hereof in the principal amount of up to \$40,000,000.00 and any amendments, extensions, renewals, modifications, or substitutions thereof or therefor in effect at any particular time.

(h) "Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

(i) "Subsidiary" means each of the Bank Subsidiaries and each other corporation for which the Borrower has the power, directly or indirectly, to direct its management or policies or to vote 25% or more of any class of its voting securities.

(j) "Tier 1 Capital" means Tier 1 capital as defined by the capital maintenance regulations of the primary federal Bank regulatory agency of the relevant Bank Subsidiary.

(k) "Total Risk Based Capital Ratio" means the total risk based capital ratio as defined by the capital maintenance regulations of the primary federal Bank regulatory agency of the Borrower.

(l) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in effect from time to time.

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IN WITNESS WHEREOF, the undersigned have hereunto set their hands and affixed their seals by and through their duly authorized officers, as of the day and year first above written.

BORROWER:

UNITED COMMUNITY BANKS, INC.

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_

Attest: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Print Title: \_\_\_\_\_

[CORPORATE SEAL]

I hereby certify that the representation and warranty contained in Section 2(i)(v) of this Agreement is true and correct.

\_\_\_\_\_  
Secretary

LENDER:

THE BANKERS BANK

BY: \_\_\_\_\_  
NAME: STEPHEN D. BENSON  
TITLE: SENIOR VICE PRESIDENT

EXHIBIT A  
ARTICLES OF INCORPORATION  
OF  
UNITED COMMUNITY BANKS, INC.

EXHIBIT B  
CERTIFICATE OF EXISTENCE  
OF  
UNITED COMMUNITY BANKS, INC.

EXHIBIT C  
BYLAWS  
OF  
UNITED COMMUNITY BANKS, INC.

EXHIBIT D  
RESOLUTIONS  
OF  
UNITED COMMUNITY BANKS, INC.

EXHIBIT E  
ARTICLES OF INCORPORATION  
OF  
EACH BANK

EXHIBIT F  
CERTIFICATE OF EXISTENCE  
OF  
EACH BANK



EXHIBIT G

BYLAWS  
OF  
EACH BANK

Compass Bank  
P.O. Box 10566  
Birmingham, Alabama 35296

CREDIT AGREEMENT

THIS CREDIT AGREEMENT is entered into and effective as of August 28, 2003, by and among UNITED COMMUNITY BANKS, INC., a Georgia corporation and a bank holding company (the "Company"), M&I MARSHALL & ILSLEY BANK, a Wisconsin banking corporation ("M&I"), COMPASS BANK, an Alabama banking corporation ("Compass") (M&I and Compass, each a "Lender" and collectively the "Lenders"), and M&I, in its capacity as agent for and on behalf of the Lenders (the "Agent").

RECITALS

The Company has requested that the Lenders extend to it a credit in the aggregate not to exceed \$45,000,000 in the form of Revolving Loans and Term Loans. The Lenders and the Agent have agreed to extend credit to the Company upon all of the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual agreements contained herein, the receipt and sufficiency of all such consideration being hereby acknowledged, the parties agree as follows:

AGREEMENT

SECTION 1 DEFINITIONS AND TERMS

1.1 Definitions. As used in this Agreement, the following terms have the following meanings:

"Affiliate" shall mean any (a) director, officer or employee of the Person, or (b) Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, another Person. A Person shall be deemed to control another Person if the controlling Person directly or indirectly, either individually or together with (in the case of an individual) his spouse, lineal descendants and ascendants and brothers or sisters by blood or adoption or spouses of such descendants, ascendants, brothers and sisters, owns five percent or more of any class of voting securities of the controlled Person or possesses, directly or indirectly, the power to direct, or cause the direction of, the management or policies of the controlled Person, whether through the ownership of voting securities, through common directors, trustees or officers, by contract or otherwise.

"Agreement" shall mean this Credit Agreement, as amended, supplemented, modified or extended from time to time.

"Average Assets" shall mean, as determined on a consolidated basis for the Company and all Bank Subsidiaries, the average daily Total Assets for the most recently ended Fiscal Year.

"Bank Subsidiary" shall mean United Community Bank, a Georgia banking corporation ("UCB Georgia"), United Community Bank, a North Carolina banking corporation, United Community Bank Tennessee, a Tennessee bank, and any Person which is now or hereafter an "insured depository institution" within the meaning of 12 U.S.C. Section 1831(c), as amended, and which is now or hereafter "controlled" by the Company within the meaning of 12 U.S.C. Section 1841(a), as amended.

"Banker's Bank" shall mean Banker's Bank of Georgia.

"Banker's Bank Loan" shall mean a loan in an aggregate principal amount not to exceed \$40,000,000.00 pursuant to the terms of that certain Loan Agreement dated as of June, 2003.

"Borrowing Date" shall mean a date on which Company has requested the funding of Loans under this Agreement, which date must be a Business Day and may not be later than one Business Day prior to the Termination Date.

"Business Day" shall mean a day other than a Saturday or Sunday on which banks are open for business in Milwaukee, Wisconsin; provided, however, that for purposes of LIBOR Rate Loans, the term "Business Day" shall mean only those days on which dealings in U.S. dollar deposits are carried out by U.S. financial institutions in the London Interbank Eurodollar Market.

"Capital" shall mean Tier 1 Capital plus the aggregate allowances for loan losses maintained by the Company and its Subsidiaries.

"Change in Control" shall mean (a) the acquisition by any Person, or two or more Persons acting in concert, of the beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 20% or more of the outstanding shares of voting ownership interests of the Company; provided, however, that the acquisition by any Person, or two or more persons, of the beneficial ownership of 20% or more of the outstanding shares of the Company in connection with the acquisition by the Company of any company in which such Person or Persons are shareholders shall not be a "Change in Control", or (b) the lease, sale or transfer or other disposition of all or substantially all of the assets of the Company or any Subsidiary in one or a series of transactions to any Person, or two or more Persons acting in concert.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and any successor statute, together with the regulations and published interpretations thereunder, in each case as in effect from time to time.

"Collateral" shall mean all of the Company's and each Subsidiary's Property granted to the Agent as collateral under the Related Documents.

"Default" shall mean an Event of Default or an event which with the giving of notice or the passage of time or both would constitute an Event of Default.

"Delinquent Lender" shall mean any Lender that fails to make available to the Agent its Pro Rata share of any Loans as, when and to the full extent required by the

provisions of this Agreement, and such Lender shall be deemed a Delinquent Lender until such time as such delinquency is satisfied.

"EDGAR" shall mean the Electronic Data Gathering, Analysis and Retrieval system of the United States Securities and Exchange Commissions.

"Employee Plan" shall mean any savings, profit sharing, or retirement plan or any deferred compensation contract or other plan maintained for employees of the Company or its Subsidiaries and covered by Title IV of ERISA, including, without limitation, any "multiemployer plan" as defined in ERISA.

"Environmental Law" shall mean any local, state or federal law or other statute, law, ordinance, rule, code, regulation, decree or order, presently in effect or hereafter enacted, promulgated or implemented governing, regulating or imposing liability or standards of conduct concerning the use, treatment, generation, storage, disposal, discharge or other handling or release of any Hazardous Substance.

"Environmental Liability" shall mean all liability arising under, resulting from or imposed by any Environmental Law and all liability imposed under common law with respect to the use, treatment, generation, storage, disposal, discharge or other handling or release of any Hazardous Substance.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, and any successor statute, together with the regulations and published interpretations thereunder, in each case as in effect from time to time.

"Event of Default" shall have the meaning assigned in Section 7.1.

"FDIC" shall mean the Federal Deposit Insurance Corporation and any successor thereof.

"Fiscal Quarter" shall mean any of the quarterly accounting periods of the Company, ending on the last day of March, June, September and December of each calendar year.

"Fiscal Year" shall mean any of the annual accounting periods of the Company ending on December 31 of each calendar year.

"Foreign Lender" shall mean a financial institution which is organized under the laws of any jurisdiction other than the United States or any state thereof.

"GAAP" shall mean those generally accepted accounting principles and practices which are recognized as such by the American Institute of Certified Public Accountants acting through appropriate boards or committees thereof and which are consistently applied for all periods so as to properly reflect the financial condition, results of operations and cash flows of the Company and its Subsidiaries.

"Government Authority" shall mean any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial,

regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled through stock or capital ownership or otherwise, by any of the foregoing.

"Hazardous Substance" shall mean any pollutant, contaminant, waste, or toxic or hazardous chemicals, wastes or substances, including, without limitation, asbestos, urea formaldehyde insulation, petroleum, PCB's, air pollutants, water pollutants, and other substances defined as hazardous or toxic in, or subject to regulation under, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9061 et seq., Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., the Toxic Substance Control Act of 1976, as amended, 15 U.S.C. Section 2601 et seq., the Solid Waste Disposal Act, 42 U.S.C. Section 3251 et seq., the Clean Air Act, 42 U.S.C. Section 1857 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., Emergency Planning and Community Right to Know Act, 42 U.S.C. Section 11001, et seq., or any other statute, rule, regulation or order of any Government Authority having jurisdiction over the control of such wastes or substances, including without limitation the United States Environmental Protection Agency, the United States Nuclear Regulatory Agency, and any applicable state department or county department of health or similar entity.

"Indebtedness" shall mean all (a) indebtedness for borrowed money; (b) indebtedness for the deferred purchase price of property or services for which the Company or a Subsidiary is liable, contingently or otherwise, as obligor, guarantor or otherwise; (c) commitments by which the Company or a Subsidiary assures a creditor against loss, including, without limitation, contingent reimbursement obligations with respect to letters of credit; (d) obligations which are evidenced by notes, acceptances or other instruments; (e) indebtedness guaranteed in any manner by the Company or a Subsidiary, including, without limitation, guaranties in the form of an agreement to repurchase or reimburse; (f) obligations under leases which are or should be, in accordance with GAAP, recorded as capital leases for which obligations the Company or a Subsidiary is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which obligations the Company assures a creditor against loss; (g) unfunded obligations of the Company or a Subsidiary to any Employee Plan; (h) liabilities secured by any Lien on any Property owned by the Company or any Subsidiary even though it has not assumed or otherwise become liable for the payment thereof; and (i) other liabilities or obligations of the Company and its Subsidiaries which would, in accordance with GAAP, be included on the liability portion of a balance sheet.

"Intercreditor Agreement" shall mean the Intercreditor Agreement between the Agent and Banker's Bank.

"Internally Classified Loans" shall mean any loan classified by any Bank Subsidiary as level 8, 9 or 10 pursuant to the current classification standard for loans established by the Company and applicable to each Bank Subsidiary.

"Lender's Interest" shall have the meaning set forth in Section 8.9 hereof.

"LIBOR Index Rate" shall mean with respect to a LIBOR Loan, the interest rate per annum (stated as a decimal) equal to the rate (rounded upwards, if necessary, to the nearest 1/16 of 1%) quoted as the rate at which dollar deposits in immediately available funds are offered on the first day of each calendar month in the interbank Eurodollar market on or about 9:00 A.M., Milwaukee time, for a period of one (1) calendar month. If the first day of any calendar month is not a regular Business Day, the LIBOR Rate shall be established on the preceding Business Day. The Agent currently uses Reuters to provide information with respect to the London Interbank Eurodollar market, but the Agent may change the service providing such information at any time. Each such determination shall be conclusive and binding upon the parties in the absence of demonstrable error or bad faith.

"LIBOR Loans" shall mean Revolving Loans or Term Loans to the extent LIBOR Rate is the base rate of interest for such Loans under this Agreement.

"LIBOR Margin" shall mean, with respect to any Revolving Loan, two percent (2.00%) per annum, and with respect to the Term Loans, two and fifteen-hundredths percent (2.15%) per annum.

"LIBOR Rate" shall mean, for any LIBOR Loan, the quotient of the LIBOR Index Rate divided by the difference (expressed as a decimal) computed by subtracting the LIBOR Reserve Requirement from one.

"LIBOR Reserve Requirement" shall mean a percentage (expressed as a decimal) equal to the aggregate reserve requirements in effect on the first day of each calendar month (including all basic, supplemental, marginal and other reserves and taking into account any transitional adjustments or other scheduled changes in reserve requirements during each calendar month) specified for "Eurocurrency Liabilities" under Regulation D of the Board of Governors of the Federal Reserve System, or any other regulation of the Board of Governors which prescribes reserve requirements applicable to "Eurocurrency Liabilities" as presently defined in Regulation D, as then in effect, as applicable to the class or classes of banks of which the Bank is a member.

"Lien" shall mean any mortgage, pledge, hypothecation, assignment, collateral deposit arrangement, encumbrance, lien (statutory or other), deed of trust, charge, preference, priority, security interest or other security agreement or preferential arrangement of any kind or nature whatsoever including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the UCC or comparable law of any jurisdiction.

"Loan Account" shall mean an account on the books of the Agent in which the Agent will record, pursuant to Section 2.4, Obligations of the Company to the Lenders, payments made upon such Obligations, and other advances, debits and credits pertaining to the Obligations or the Collateral.

"Loan Commitment(s)" shall mean the aggregate principal amount of Loans to be made available hereunder by each Lender in amounts not in excess of the Revolving Loan Commitments applicable to each Lender.

"Loan Loss Reserves" shall mean, with respect to the Company and each Bank Subsidiary, the loan loss reserve as determined with respect to each Bank Subsidiary and prepared in accordance with GAAP.

"Material Adverse Effect" shall mean (a) a Default, (b) a material adverse change in the business, Property, operations, prospects or condition (financial or otherwise) of the Company and its Subsidiaries, (c) the termination of any material agreement to which the Company or any Subsidiary is a party which would have a material affect on the Company and its Subsidiaries, taken as a whole, (d) any material impairment of the right to carry on the business as now or proposed to be conducted by the Company or any Subsidiary, which would have a material affect on the Company and its Subsidiaries, taken as a whole, or (e) any material impairment of the ability of the Company and its Subsidiaries, taken as a whole, to perform the obligations under this Agreement or the Related Documents. A Material Adverse Effect shall be deemed to have occurred if the cumulative effect of an individual event and all other then existing events would result in a Material Adverse Effect.

"Maximum Available Commitment" shall mean an amount equal to the excess (if any) of the Revolving Loan Commitments minus (a) the outstanding principal amount of all Revolving Loans made by the Lenders and minus (b) the outstanding principal balance of any Term Loans.

"Memorandum of Understanding" shall mean any memorandum of understanding between the Company or any Bank Subsidiary and a Governmental Authority that either (a) the Company discloses to either the Securities and Exchange Commission or to such bank's liability bond issuer, or (b) the Agent reasonably deems to be material.

"Net Chargeoffs" shall mean for any given time period, the consolidated Total Gross Loan chargeoffs for such time period, net of recoveries made during such time period.

"Net Income" or "Net Loss" shall mean, for any period, the net after-tax income (or net loss) of a Person on a consolidated basis determined in accordance with GAAP, excluding the after-tax effect of the sum of (a) interest in any net earnings of Persons in which a Person has an ownership interest, other than Subsidiaries, not actually received, (b) gains arising from a write-up of assets, (c) gains arising from the acquisition of any securities of the Person or any Subsidiary, (d) gains resulting from the sale of any investments or capital assets (other than securities transactions of any Bank Subsidiary in the ordinary course of business, (e) amortization of any deferred credit arising from the acquisition of any Person or in the property or assets of any Person, (f) earnings of any Subsidiary prior to the date it became a Subsidiary, and (g) earnings acquired by the Person or any Subsidiary through purchase, merger or consolidation or otherwise for any period prior to the date of acquisition, each as further determined in accordance with GAAP.

"Nonperforming Loans" shall mean, at any time, the aggregate principal amount (including any capitalized interest) of (a) all nonaccruing loans of any Bank Subsidiary and (b) all loans of any Bank Subsidiary that are 90 days or more past due, and

(c) all loans of any Bank Subsidiary that are Restructured Loans, all determined, with respect to each Bank Subsidiary, in accordance with GAAP.

"Notes" shall mean the Revolving Credit Notes, the Term Notes, and any note(s) or obligation(s) issued in substitution, replacement or renewal thereof.

"Obligations" shall mean the Revolving Loans, the Term Loans, all mandatory prepayments, all costs and expenses payable to the Lenders and the Agent hereunder or under the Related Documents, all liabilities of the Company to the Lenders and the Agent, and their respective Affiliates under this Agreement and the Related Documents, and all other Indebtedness of the Company to the Lenders and their respective Affiliates, whether or not evidenced by this Agreement or the Related Documents, including, without limitation, all liabilities under Rate Management Transactions related to the Revolving Loans or Term Loans.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Permitted Liens" shall mean: (a) Liens for taxes, assessments, or governmental charges, carriers', warehousemen's, repairmen's, mechanics', materialmen's and other like Liens, which are either not delinquent or are being contested in good faith by appropriate proceedings which will prevent foreclosure of such Liens, and against which adequate cash reserves have been provided; (b) easements, restrictions, minor title irregularities and similar matters which have no material adverse effect upon the ownership and use of the affected Property; (c) Liens or deposits in connection with worker's compensation, unemployment insurance, social security or other insurance or to secure customs duties, public or statutory obligations in lieu of surety, stay or appeal bonds, or to secure performance of contracts or bids, other than contracts for the payment of money borrowed, or deposits required by law as a condition to the transaction of business or other Liens or deposits of a like nature made in the ordinary course of business; (d) Liens in favor of the Agent pursuant to the Related Documents; (e) Liens evidenced by conditional sales, purchase money mortgages or other title retention agreements on machinery and equipment (acquired in the ordinary course of business and otherwise permitted to be acquired hereunder) which are created at the time of the acquisition of such property solely for the purposes of securing the Indebtedness incurred to finance the cost of such property, provided no such Lien shall extend to any property other than the property so acquired and identifiable proceeds; (f) Liens granted to the Federal Home Bank; (g) Liens granted to Banker's Bank to secure the Banker's Bank Loan in accordance with the Intercreditor Agreement; (h) government deposit security pledges; and (i) liens and pledges made in connection with repurchase agreements entered into by any Bank Subsidiary.

"Person" shall mean an individual, partnership, corporation, limited liability company or partnership, firm, enterprise, business trust, joint stock company, trust, unincorporated association, joint venture, Government Authority or other entity of whatever nature.



"Pledge Agreement" shall mean the Collateral Pledge Agreement by and between the Company and the Agent, as amended, supplemented, modified or extended, from time to time, pledging at least 51% of the stock of UCB Georgia.

"Prime Rate" shall mean the interest rate publicly announced by the Agent from time to time in Milwaukee, Wisconsin as its prime rate for interest rate determinations, which is solely a reference rate and may be at, above or below the rate or rates at which the Agent lends to other Persons. Any change in the Prime Rate shall become effective as of the opening of business on the day on which such change is publicly announced by the Agent.

"Pro Rata" shall mean ratably among the Lenders in proportion to the ratio that their respective Revolving Loan Commitments bear to the aggregate Revolving Loan Commitments.

"Property" shall mean any interest of the Company and its Subsidiaries of any kind in property or assets, whether real, personal, mixed, tangible or intangible, wherever located, and whether now owned or subsequently acquired or arising and in the products, proceeds, additions and accessions thereof or thereto.

"Rate Management Transaction" means any transaction (including an agreement with respect thereto) now existing or hereafter entered into between the Company and any Lender or Affiliate thereof which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"Regulatory Change" shall mean the adoption or amendment, after the date of this Agreement, of any national, federal or state law, regulation, interpretation, direction, policy, guideline or court decision applicable to any Lender or the London Interbank Eurodollar Market which makes it unlawful for any Lender to make, maintain or fund the Obligations based on the LIBOR Rate, increases the cost to any Lender of making or maintaining the Obligations or reduces the rate of return to such Lender (by reduction of principal, interest or otherwise) on the Obligations by subjecting such Lender to any tax, duty or other imposition or charge with respect to the Obligations, imposing any reserve requirement (except any reserve requirement reflected in the LIBOR Rate), affecting the treatment of any Obligation for purposes of calculating the appropriate amount of capital to be maintained by such Lender or any Person controlling such Lender, or otherwise imposing on such Lender any other condition affecting the Obligations.

"Related Documents" shall mean the Revolving Credit Notes, the Term Notes, the Pledge Agreement, the Intercreditor Agreement, and all other instruments, agreements, certificates, and other documents executed by or on behalf of the Company, any Subsidiary or any guarantor in connection with any of the Obligations or the transactions

contemplated under this Agreement, all as amended, supplemented, modified or extended from time to time.

"Required Lenders" shall mean Lenders whose aggregate Loan Commitments outstanding total more than 66 2/3% of the aggregate then existing Loan Commitments; provided, however, that if there are two or fewer Lenders, the term "Required Lenders" shall mean all the Lenders.

"Requirements of Law" shall mean as to any matter or Person, the Certificate or Articles of Incorporation and Bylaws or other organizational or governing documents of such Person, and any law (including, without limitation, any Environmental Law), ordinance, treaty, rule, regulation, order, decree, determination or other requirement having the force of law relating to such matter or Person and, where applicable, any interpretation thereof by any Government Authority.

"Restricted Payments" shall mean (a) dividends or other distributions by the Company or any Subsidiary based upon the stock of the Company or any Subsidiary (except dividends payable to the Company or any Subsidiary by any Subsidiary and dividends payable solely in stock of the Company), (b) any other distribution by the Company in respect of stock of the Company, whether now or hereafter outstanding, either directly or indirectly, whether in cash or property or otherwise, and (c) payment of management fees by the Company or any Subsidiary to any Affiliate, either directly or indirectly, whether in cash or property or otherwise (but excluding management fees paid by the Company's Subsidiaries to the Company in the ordinary course of business).

"Restructured Loans" shall mean, at any time, all loans (exclusive of loans included in clause (a) and (b) of the definition of Nonperforming Loans) the terms of which have been amended or modified and that were formerly (a) nonaccruing or (b) 90 days or more past due, all determined, with respect to each Bank Subsidiary, prepared in accordance with GAAP.

"Return on Average Assets" shall mean the ratio of Net Income to Average Assets, as determined on a consolidated basis for the Company and the Bank Subsidiaries and prepared in accordance with GAAP, expressed as a percentage.

"Revolving Credit Notes" shall mean the Revolving Credit Notes dated of even date herewith issued by the Company to the Lenders evidencing the Revolving Loans, as amended, supplemented, modified or extended from time to time.

"Revolving Loan Commitments" shall mean the separate and independent obligation of each Lender to make loans to the Company in accordance with the terms and conditions of this Agreement in not more than the aggregate principal amount of:

\$35,000,000.00 as to M&I  
\$10,000,000.00 as to Compass.

"Revolving Loans" shall mean the loans to the Company pursuant to Section 2.1 of this Agreement and evidenced by the Revolving Credit Notes.

"Subsidiary" shall mean as to any Person, a Bank Subsidiary, a corporation, limited liability company, partnership, association, joint venture or other entity of which shares of stock, membership interests or other voting interests having voting power (other than stock having such power only by reason of the happening of a contingency that has not occurred) sufficient to elect a majority of the board of directors or other managers of such entity are at the time owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person.

"Term Loans" shall mean the loans to the Company pursuant to Section 2.2 evidenced by the Term Notes.

"Term Notes" shall mean the promissory notes of the Company to the Lenders evidencing the Term Loans, each as amended, supplemented, modified or extended from time to time.

"Termination Date" shall mean, (a) as to the Revolving Loans, August 27, 2004 and (b) as to the Term Loans, five years from the date such Term Loan is made by the Lenders, or, in each case, such earlier date on which the Obligations shall terminate as provided in this Agreement.

"Tier 1 Capital" shall mean the Tier 1 capital determined in accordance with Appendix A to Regulation Y of the Board of Governors of the Federal Reserve System as from time to time in effect, and any successor or other regulation or official interpretation of said Board of Governors relating thereto.

"Tier 2 Capital" shall mean the Tier 2 capital determined in accordance with Appendix A to Regulation Y of the Board of Governors of the Federal Reserve System as from time to time in effect, and any successor or other regulation or official interpretation of said Board of Governors relating thereto.

"Total Assets" shall mean, with respect to any Person, the total assets of such Person, as set forth or reflected, or as should be set forth or reflected, on the most recent balance sheet of such Person, prepared in accordance with GAAP.

"Total Gross Loans" shall mean, at any time, the aggregate outstanding principal amount of all of the loans of all Bank Subsidiaries, as reported by the Company in accordance with GAAP.

"Trust Preferred Indebtedness" shall mean any Indebtedness issued by the Company or any Subsidiary that qualifies as Tier 1 Capital or Tier 2 Capital.

"UCC" shall mean the Uniform Commercial Code as the same may, from time to time, be in effect and codified in the State of Wisconsin; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of Lender's security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of Wisconsin, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction solely for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

1.2 Accounting and Financial Determinations.

(a) Where the character or amount of any asset or liability or item of income or expense is required to be determined, or any accounting computation is required to be made, for the purpose of this Agreement, such determination or calculation shall be made on a consolidated basis so as to include Company and each Subsidiary in each such calculation and, to the extent applicable and except as otherwise specified in this Agreement, shall be made in accordance with GAAP; provided, however, that if any change in GAAP from those applied in the preparation of the financial statements referred to in Section 5.3 is occasioned by the promulgation of rules, regulations, pronouncements and opinions by or required by the American Institute of Certified Public Accountants (or its boards or committees or successors thereto or agencies with similar functions), the initial announcement of which change is made after the date hereof, results in a change in the method of calculation of financial covenants, standards or terms found in Section 6, the parties hereto agree to enter into good faith negotiations in order to amend such provisions so as to reflect such changes with the desired result that the criteria for evaluating the Company's financial condition shall be the same after such changes as if such changes had not been made; and provided, further, that until such time as the parties hereto agree upon such amendments, such financial covenants, standards and terms shall be construed and calculated as though no change had taken place.

(b) All regulatory determinations and calculations made in connection with the determination of the status of the Company and any Bank Subsidiary as well capitalized under Section 5.11 hereof, shall be made in accordance with the laws, rules, regulations and interpretations thereof by the Government Authority charged with interpretations thereof, as in effect on the date of such determination or calculation, as the case may be.

(c) When used herein, the term "financial statement" shall include balance sheets, statements of earnings, statements of stockholders' equity, statements of cash flows and the notes and schedules thereto, and each reference herein to a balance sheet or other financial statement of the Company shall be to a statement prepared on a consolidated basis, unless otherwise specified.

1.3 Interpretation. The words "hereof," "herein" and "hereunder" and words of a similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. Section, Schedule and Exhibit references contained in this Agreement are references to sections, schedules and exhibits in or to this Agreement unless otherwise specified. Any reference in any Section or definition to any clause is, unless otherwise specified, to such clause of such Section or definition.

1.4 Other Terms. Except as otherwise specifically provided, each accounting term used herein shall have the meaning given to it under GAAP, and all other terms contained in this Agreement (and which are not otherwise specifically defined herein) shall have the meanings provided in the UCC to the extent the same are used or defined therein unless the context otherwise requires. Terms defined in other Sections of this Agreement shall have the meanings set forth therein.

1.5 Incorporation of Recitals. The Recitals to this Agreement are true, correct and incorporated herein by reference.

## SECTION 2 AMOUNTS AND TERMS OF OBLIGATIONS

### 2.1 Revolving Loans.

(a) Prior to the Termination Date, and so long as no Default has occurred and is continuing, the Lenders agree, individually and severally, on the terms and conditions set forth in this Agreement to each extend to the Company its Pro Rata Share of the Revolving Loans from time to time, in amounts not to exceed in the aggregate at any one time outstanding its individual Revolving Loan Commitment. Subject to the terms of this Agreement, the Company may borrow, repay (in whole or in part) and reborrow the Revolving Loans prior to the Termination Date for Revolving Loans. The Revolving Loans made by the Lenders shall be evidenced by the Revolving Credit Notes.

(b) Prior to an Event of Default, and except as otherwise provided herein, each Revolving Loan shall bear interest on the unpaid principal balance before maturity (whether upon demand, acceleration, default or otherwise) at the rate per annum equal to the greater of (i) the LIBOR Rate plus the LIBOR Margin for Revolving Loans, or (ii) three and thirty-five hundredths percent (3.35%). The LIBOR Rate shall be determined by the Agent as of the initial funding of each Revolving Loan, and shall be adjusted by the Agent as of the first day of each calendar month thereafter to be equal to the LIBOR Rate on that Business Day. Interest shall be computed and adjusted daily based on the actual number of days elapsed and a year of 360 days.

(c) From the date of the first Revolving Loan and until all Revolving Loans are paid in full, the Company shall pay to the Agent for the Pro Rata benefit of the Lenders, in arrears, accrued and unpaid interest on the principal balance of the Revolving Loans on the first Business Day of each January, April, July and October, and in all cases, a final payment of accrued interest on the Termination Date for the Revolving Loans.

(d) Notwithstanding anything to the contrary herein, all outstanding unpaid principal and accrued interest on the Revolving Loans shall be due and payable to the Agent for the Pro Rata benefit of the Lenders on the Termination Date for the Revolving Loans.

(e) The Company may obtain Revolving Loans by making a request therefor to Agent in writing in the form attached hereto as EXHIBIT A ("Loan Request"). Such request shall specify the Borrowing Date on which such Revolving Loans are to be made, shall be received by the Agent by 11:00 a.m. (Central Standard time) two Business Days before the Borrowing Date, and shall specify the amount of the Revolving Loans requested. Agent shall notify the Lenders of such request promptly after receipt thereof. The Company shall be obligated to repay all Revolving Loans notwithstanding the fact that the person requesting the Revolving Loan was not in fact authorized to do so. Each Revolving Loan request made by the Company shall be irrevocable. Each Revolving Loan shall be in the principal amount of the lesser of (i) \$250,000 or a multiple thereof or (ii) the then Maximum

Available Commitment. Upon fulfillment of the conditions specified in Section 4 of this Agreement, the Agent shall promptly deposit the amount of such Revolving Loan(s) in the Company's deposit account number \_\_\_\_\_ maintained with Compass.

2.2 Term Loans. If no Default or Event of Default exists, the Company may convert all or a portion of the Revolving Loans to Term Loans. The Term Loans shall bear interest at a per annum rate equal to at the greater of (i) the LIBOR Rate plus the LIBOR Margin for Term Loans or (ii) three and one-half percent (3.50%), and shall have a maturity of not more than five years (with principal payments thereon based on a seven year amortization schedule). The obligation of the Lenders to permit the conversion of Revolving Loans to Term Loans is subject to the prior approval of the Required Lenders and the execution and delivery by the Company of such agreements, notes and security agreements as may be reasonably satisfactory to the Agent and the Lenders in their sole discretion.

2.3 Interest After Default. After an Event of Default, each of the Obligations shall bear interest at the rate of 3% per annum in excess of the applicable rates set forth in this Agreement. In no event shall the interest rate under the Notes exceed the highest rate permitted by law.

2.4 Loan Account. The Agent will enter as a debit to the Loan Account the aggregate principal amount of each Loan as disbursed or issued from time to time. The Agent shall also record in the Loan Account, in accordance with the Agent's customary accounting practices, all accrued interest and all other charges, expenses and other items properly chargeable to the Company hereunder or under the Related Documents, all payments made by the Company with respect to the Obligations, and all other debits and credits. Not more frequently than once each month, the Agent shall render a statement of account of the Loan Account (including a statement of the outstanding principal balance of the Loans, accrued interest on the Loans, accrued fees and expenses and the applicable interest rate for each Loan) which statement shall be considered correct and accepted by the Company and conclusively binding upon the Company absent manifest error, unless the Company notifies the Agent to the contrary within 30 days the Company's receipt of such statement; provided, however, that the Agent is entitled to adjust the Company's Loan Account for any errors.

2.5 Payments. Whenever any payment to be made hereunder shall be stated to be due on a day which is not a Business Day, such payment may be made on the next succeeding Business Day in good funds, and such extension of time shall in such case be included in the computation of payment of interest on the Notes. The Agent may invoice the Company for any regularly scheduled payments or fees due hereunder (but shall not be obligated to provide any invoice as a condition to the Company's payment of such amounts) and the Agent shall notify or otherwise provide the Company with an invoice for any unscheduled payments or payments which require calculation by the Agent (including fees and expenses payable to the Agent or the Lenders hereunder or in the Related Documents). Notwithstanding anything to the contrary herein, the Agent may debit to the depository accounts maintained by the Company with the Agent all payments on the Obligations when due provided that the Agent has complied with any notice requirement herein.

2.6 Prepayments and Indemnifications.

(a) Optional Prepayments/Term Loans. The Company may, at its option and at any time, prepay the Loans in whole or in part. Any prepayment on the Term Loans shall permanently reduce the amount of the applicable Term Loans. In the case of prepayment of less than all of the outstanding principal amount of any Term Loans, all prepayments shall be applied Pro Rata to the principal installments in the reverse order of their maturities, unless otherwise agreed in writing by Agent.

(b) Mandatory Prepayment/Revolving Loans. At any time that (A) the aggregate principal amount of Revolving Loans plus the aggregate outstanding principal amount of any Term Loans outstanding hereunder exceeds (B) the sum of the Revolving Loan Commitment, the Company shall immediately pay the amount of such excess in immediately available funds, together with interest accrued on the amount of the payment. Such payment shall be applied Pro Rata first to any charges and expenses, second to the interest accrued on the amount of such payment, and last to principal installments on the Term Loans in the reverse order of their maturities, unless otherwise agreed in writing by the Agent.

2.7 Effect of Regulatory Change. In the event of a Regulatory Change, (a) Agent shall promptly notify the Company; (b) the obligation of the Lenders to make or continue the Term Loans or Revolving Loans based on the LIBOR Rate shall be suspended for the duration of such Regulatory Change; and (c) Loans shall bear interest at a rate mutually agreed upon by the Required Lenders and the Company; provided, however, that if the parties cannot agree on such a rate within ten Business Days of the effective date of such Regulatory Change, the interest rate shall equal the Prime Rate.

2.8 Interbank Rate Unascertainable; Unlawful.

(a) If (1) the Agent is advised that deposits in dollars (in the applicable amount) are not being offered to banks in the relevant market for a period of one (1) calendar month, or the Agent otherwise determines (which determination if in good faith shall be binding and conclusive on all parties) that by reason of circumstances affecting the interbank Eurodollar market adequate and reasonable means do not exist for ascertaining the applicable LIBOR Rate; or (2) if the making or funding of such LIBOR Rate loans has become impracticable as a result of an event occurring after the date of this Agreement and the Notes which in the opinion of the Agent materially affects such LIBOR Rate loans, then so long as such circumstances shall continue, no Lender shall not be under any obligation to make or continue this Agreement and the Notes based on the LIBOR Rate, and on the first Business Day of the next calendar month, this Agreement and the Notes shall bear interest at the greater of (1) 3.35% and (2) a rate mutually agreed upon by the Required Lenders and the Company; provided, however, that if the parties cannot agree on such rate within ten Business Days of the effective date of such event, the interest rate shall equal the Prime Rate.

(b) If any change in (including the adoption of any new) applicable laws or regulations, or any change in the interpretation of applicable laws or regulations by any governmental or other regulatory body charged with the administration thereof, should make it unlawful for any Lender to make, maintain or fund this Agreement and the Notes based on the Interbank Rate, then: (1) the Agent shall promptly notify the Company; (2) the

obligation of the Lenders to make or continue this Agreement and the Notes based on the Interbank Rate shall be suspended for the duration of such unlawfulness; and (3) on the first Business Day of the following calendar month, this Agreement and the Notes shall bear interest at the greater of (1) 3.35% and (2) a rate mutually agreed upon by the Required Lenders and the Company; provided, however, that if the parties cannot agree on such rate within ten Business Days of the effective date of such event, the interest rate shall equal the Prime Rate.

2.9 Funding Procedures. Unless a Lender notifies the Agent at least one Business Day in writing prior to the date on which it is scheduled to make any advance on a Loan that it does not intend to make such advance on a Loan, the Agent may assume that such advance will be received by Agent when due in good funds. The Agent may, but shall not be obligated to, make the amount of any such requested Loan available to the Company on behalf of any Lender in reliance upon such assumption, without qualification or any other knowledge of Agent. If the Agent makes such advance on behalf of a Lender, and such Lender does not in fact make such advance to the Agent, the Company shall, on demand by the Agent, repay to the Agent the amount so made available, together with interest thereon from the date of payment until the date the Agent receives such amount, in good funds at a rate per annum equal to (i) in the case of payment by a Delinquent Lender, the federal funds rate (as determined by the Agent) or such other rate of interest as may be provided for herein, or (ii) in the case of payment by the Company, the interest rate applicable to the relevant Obligation. A statement of the Agent submitted to the Company or any Lender with respect to any amounts owing under this Section 2.9 shall be conclusive, in the absence of manifest error. Notwithstanding the compensation set forth above, if the proceeds of any Revolving Loan are not in fact made available to the Agent by any Lender within one Business Day after the date of the scheduled Borrowing Date, the Agent shall be entitled to recover the amount of such proceeds from the Company, with interest thereon at the rate per annum then applicable to the Revolving Loan not funded by such Delinquent Lender, until such amount is recovered, upon demand, from such Delinquent Lender. Nothing in this Section 2.9 shall be deemed to relieve any Lender from its obligation to fulfill its Loan Commitments hereunder, or to prejudice any rights which the Agent or the Company may have against any Lender as a result of any default by that Lender hereunder. The failure of any one of the Lenders to fulfill its Loan Commitments shall not relieve any other Lender of its obligation to lend hereunder, and shall not obligate the Agent or other Lenders to take any action on behalf of the Company against such Delinquent Lender. The Company acknowledges that neither the Agent nor the other Lenders shall be liable to the Company in any way whatsoever for any failure of any other Lender to meet its obligations hereunder.

2.10 Application of Payments.

(a) All payments hereunder and under the Notes made by the Company shall be made to the Agent in immediately available funds for the Pro Rata account of the Lenders. Except as otherwise provided herein, the Agent shall promptly distribute to the Lenders the amount of any such payments, and all proceeds upon realization from Collateral for the Obligations or any insurance proceeds respecting the Collateral, in the following order of priority: (i) each Lender's Pro Rata share of the fees



and expenses described in Section 5.8 hereof then due, plus all fees and expenses of Agent payable to Agent herein for services in its capacity as Agent; (ii) each Lender's Pro Rata share of principal and interest received by the Agent on the Revolving Loans and Term Loans (which shall be applied first to accrued but unpaid interest on the Loans, then to the principal amount outstanding on the Revolving Loans, then to scheduled installments of principal on the Term Loans which are due and payable, and then to the remaining principal outstanding on the Term Loans as provided for herein, and provided further that any optional or mandatory prepayment shall be applied to the Loans as provided for in Section 2.6); and (iii) each Lender's Pro Rata share of all other Obligations collected by Agent which are owed to such Lender (including any amounts owed by the Company to such Lender under any Rate Management Transactions Related to the Revolving Loans or Term Loans). Any payment in good funds to the Agent for the account of a Lender hereunder shall constitute a payment by the Company to such Lender of the amounts so paid to the Agent, and any Notes or portions thereof so paid shall not be considered outstanding for any purpose after the date of such payment in good funds to the Agent. Except as otherwise provided herein, all payments or prepayments of principal and interest shall be deemed to have been made Pro Rata in accordance with the amounts of the Notes then outstanding. In the event any Lender shall receive from the Company, any guarantor or any other source (other than the sale of or a participation to another commercial lender of any Lender's Interest in the Loans to the extent permitted by this Agreement) any payment of, on account of, or for an Obligation of the Company hereunder or under the Related Documents (whether pursuant to the exercise of any right of setoff, banker's lien, realization upon any Collateral or security held for or appropriated to such obligation, counterclaim or otherwise), then such Lender shall immediately deliver such amounts in good funds to Agent for distribution and allocation according to this Agreement (without interest). The Company specifically acknowledges and consents to the preceding sentence, and agrees that its Obligations hereunder includes reimbursement of the Agent and each Lender for any amounts paid to Agent and any Lender hereunder which is subsequently recovered from the Agent or such Lender for any reason, except the willful misconduct of such Agent or Lender. All payments required hereunder and under the Related Documents shall be made free of any claim, defense, counterclaim, recoupment or setoff of any kind held by the Company against the Agent or any Lender.

(b) A Delinquent Lender shall be deemed to have assigned to Agent any and all payments due to it from the Company to the Lenders who are not then a Delinquent Lender for application to, and reduction of, their respective Pro Rata shares of all outstanding Revolving Loans or Term Loans as the case may be. The Delinquent Lender hereby authorizes the Agent to distribute such payments to the Lenders which are not a Delinquent Lender in proportion to their respective Pro Rata shares of all outstanding Revolving Loans or Term Loans as the case may be, excluding for this purpose only Loans which were made by the Delinquent Lender until the earlier of the time when such Lender is no longer a Delinquent Lender or the Obligations owed to the non-Delinquent Lender(s) are paid in full. A Delinquent Lender shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payment to the nondelinquent Lenders, the Lenders' respective Pro Rata shares of all outstanding Revolving Loans shall return to the Pro Rata shares in effect immediately prior to such delinquency. While any Lender is a Delinquent Lender, the Agent may replace such Delinquent Lender by refinancing all of the Obligations of the Company to

such Delinquent Lender with another financial institution having a combined capital and surplus in excess of \$1,000,000,000, but only if (a) such financial institution shall become a party to this Agreement in accordance with the terms of Section 8.9 hereof, (b) such financial institution shall, immediately after refinancing such Obligations, cure the delinquency of the Delinquent Lender, and (c) such financial institution is not a Foreign Lender; provided however that any such sale and/or cure shall not release or impair any rights and remedies of the Company or the other Lenders against the Delinquent Lender.

2.11 Effect of Regulatory Change. In the event of a Regulatory Change deemed by any Lender in good faith to be material, the Company shall pay to such Lender (within ten days after notice by the Lender to the Company of such Regulatory Change) such amounts as are reasonably necessary to compensate the Lender for the increase in the cost of making or obtaining the Obligations or the reduction in the rate of return to the Lender on the Obligations resulting from the Regulatory Change.

2.12 Security. Payment of all Obligations shall be secured by a first priority security interest or lien on all of the Collateral described in the Related Documents, and in accordance with this Agreement and the Related Documents.

2.13 No Obligation to Extend or Forbear. The Company acknowledges and agrees that each of the Lenders: (a) upon execution hereof, has no duty or obligation of any kind to, and has made no representations of any kind or nature that such Lender will, extend credit or any other kind of financial accommodations to the Company after the Termination Date, or forbear at any time from the exercise of any of its rights or remedies under this Agreement, the Related Documents and applicable law; and (b) may at any time, in its sole and absolute discretion, exercise whatever rights and remedies such Lender may have under this Agreement, the Related Documents and applicable law. All Obligations shall be due in full on the Termination Date without further notice or demand.

### SECTION 3 REPRESENTATIONS AND WARRANTIES

In order to induce the Agent and the Lenders to enter into this Agreement and make and incur the Obligations as herein provided, the Company hereby represents and warrants to the Agent and the Lenders as follows:

3.1 Organization, Qualification and Subsidiaries. The Company is lawfully existing and in good standing as a Georgia corporation and as a bank holding company. The Company and each Subsidiary are lawfully existing and in good standing under the laws of their respective jurisdiction of incorporation or organization, and are duly qualified, in good standing and authorized to do business in each jurisdiction where failure to do so might have a material adverse impact on the consolidated assets, condition or prospects of such Subsidiary or the Company. The Company has the corporate power and authority and all necessary licenses, permits and franchises to borrow hereunder, and to grant the liens and security interests provided for in the Related Documents and to own its assets and conduct its business as presently conducted. All of the issued and outstanding capital stock of the Company and each of its Subsidiaries has been validly issued and is fully paid and non-assessable. Except as set forth on SCHEDULE 3.1: (a) the Company has no Subsidiaries;

(b) the Company does not own, directly or indirectly, more than 1% or \$100,000, whichever is greater, of the total outstanding shares of any class of capital stock of any other Person.

3.2 Financial Statements. The Company's year-end audited financial statements for December 31, 2002, audited by Porter Keadle Moore, LLP, and the financial statements prepared by the Company for the three-month period ended March 31, 2003 are accurate and complete and were prepared in accordance with GAAP (except that the interim financial statements are subject to normal year-end audit adjustments) consistently applied throughout the applicable periods, and present fairly the financial condition of the Company as of such dates and the results of its operations and cash flows for the periods then ended. The balance sheets and footnotes thereto show all known liabilities, direct or contingent, of the Company and its Subsidiaries as of the respective dates thereof in accordance with GAAP. There has been no Material Adverse Effect since the date of the latest of such statements. The Company's Fiscal Year begins on January 1st.

3.3 Authorization. The making, execution, delivery and performance of this Agreement and the Related Documents by the Company have each been duly authorized by all necessary corporate action. The valid execution, delivery and performance of this Agreement, the Related Documents and the transactions contemplated hereby and thereby, are not and will not be subject to any approval, consent or authorization of any Government Authority. This Agreement and the Related Documents are the valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms.

3.4 Absence of Conflicting Obligations. The making, execution, delivery and performance of this Agreement and the Related Documents, and compliance with their respective terms, do not violate or constitute a default, breach or violation under any Requirements of Law or any covenant, indenture, deed, lease, contract, agreement, mortgage, deed of trust, note or instrument to which the Company or any of its Subsidiaries is a party or by which it is bound.

3.5 Taxes. The Company has, and its Subsidiaries have, filed all federal, state, foreign and local tax returns which were required to be filed, except those returns for which the due date has been validly extended. The Company has, and its Subsidiaries have, paid or made provisions for the payment of all taxes, assessments, fees and other governmental charges owed, and no tax deficiencies have been proposed, threatened or assessed against the Company or its Subsidiaries. The federal income tax liability of the Company and its Subsidiaries has been finally determined by the Internal Revenue Service and satisfied for all taxable years up to and including the taxable year ended December 31, 2002 and there is no pending or, to the best of the Company's knowledge, threatened tax controversy or dispute as of the date hereof.

3.6 Absence of Litigation. There is no pending or, to the knowledge of the Company, threatened litigation or administrative proceeding at law or in equity which would, if adversely determined, result in a Material Adverse Effect, and, to the best of the Company's knowledge after diligent inquiry, there are no presently existing facts or circumstances likely to give rise to any such litigation or administrative proceeding.

3.7 Accuracy of Information. All information, certificates or statements given or made by the Company to the Agent and the Lenders in connection with or pursuant to this Agreement and the Related Documents were accurate, true and complete in all material respects when given, continue to be accurate, true and complete as of the date hereof, and do not contain any untrue statement or omission of a material fact necessary to make the statements herein or therein not misleading. There is no fact known to the Company which is not set forth in this Agreement, the Related Documents or other documents, certificates or statements furnished to the Agent and the Lenders by or on behalf of the Company in connection with the transactions contemplated hereby and which will, or which in the future may (so far as the Company can reasonably foresee), cause a Material Adverse Effect.

3.8 Ownership of Property. The Company and each of its Subsidiaries has good and marketable title to all of its Property, including, without limitation, the Property reflected in the balance sheets referred to in Section 3.2. There are no Liens of any nature on any of the Property except Permitted Liens. All Property useful or necessary in the Company's and its Subsidiaries' business, whether leased or owned, is in good condition, repair (ordinary wear and tear excepted) and working order and, to the best of the Company's knowledge after diligent inquiry, conforms to all applicable Requirements of Law. The Company and each Subsidiary owns (or is licensed to use) and possesses all such patents, trademarks, trade names, service marks, copyrights and rights with respect to the foregoing as are reasonably necessary for the conduct of the business(es) of the Company and such Subsidiaries as now conducted and proposed to be conducted without, individually or in the aggregate, any infringement upon rights of other Persons.

3.9 Federal Reserve Regulations. The Company and its Subsidiaries will not, directly or indirectly use any proceeds of the Obligations to: (a) purchase or carry any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 C.F.R. 221, as amended); (b) extend credit to other Persons for any such purpose or refund indebtedness originally incurred for any such purpose, except in compliance with all Requirements of Law; or (c) otherwise take or permit any action which would involve a violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulation of the Board of Governors of the Federal Reserve System.

3.10 ERISA. The Company and each of its Subsidiaries and anyone under common control with the Company under Section 4001(b) of ERISA is in compliance in all material respects with the applicable provisions of ERISA and: (a) no "prohibited transaction" as defined in Section 406 of ERISA or Section 4975 of the Code has occurred; (b) no "reportable event" as defined in Section 4043 of ERISA has occurred; (c) no "accumulated funding deficiency" as defined in Section 302 of ERISA (whether or not waived) has occurred; (d) there are no unfunded vested liabilities of any Employee Plan administered by the Company or its Subsidiaries; and (e) the Company and its Subsidiaries or the plan sponsor has timely filed all returns and reports required to be filed for each Employee Plan.

3.11 Security Interests. The Agent has a legal, valid, perfected, first priority security interest in the Collateral and the Collateral is and at all times shall be free and clear of all other Liens whatsoever.

3.12 Places of Business. The principal place of business and chief executive office of the Company is located at the address specified in Section 8.6 for the Company, and the corporate books and records of the Company are located and hereafter shall continue to be located at such principal place of business and chief executive office.

3.13 Other Names. Except as provided on Schedule 3.13 attached hereto, the business conducted by the Company has not been conducted under any other corporate, trade or fictitious name during the last five years, and following the date hereof the Company will not conduct its business under any other corporate, trade or fictitious name unless the Company shall have delivered at least 30 days' prior written notice to the Agent of such name change.

3.14 Not an Investment Company. The Company is not (a) an "investment company" or a company "controlled by an investment company" within the meaning of the Investment Company Act of 1940, as amended, or (b) a "holding company" or a "subsidiary" of a "holding company" or an "affiliate of a "holding company" or a "subsidiary" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

3.15 No Defaults. Neither the Company nor any Subsidiary is in default under or in violation of (a) any Requirements of Law, (b) any covenant, indenture, deed, lease, agreement, mortgage, deed of trust, note or other instrument to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary is bound, or to which any of its Property is subject, or (c) any Indebtedness; or if any default or violation under Sections 3.15(a), (b) or (c) exists, it is an immaterial default or violation and the failure to cure such default or violation would not result in a Material Adverse Effect.

3.16 Environmental Laws. The business of the Company and each of its Subsidiaries has been operated in full compliance with all Environmental Laws and neither the Company nor any Subsidiary is subject to any Environmental Liability relating to the conduct of its business or the ownership of its Property and no facts or circumstances exist which could give rise to such Environmental Liabilities. No notice has been served on the Company or any Subsidiary claiming any violation of Environmental Laws, asserting Environmental Liability or demanding payment or contribution for Environmental Liability or violation of Environmental Laws.

3.17 Labor Matters. There are no labor disputes between the Company or any Subsidiary, and any of its employees which individually or in the aggregate, if resolved in a manner adverse to the Company or a Subsidiary, would result in a Material Adverse Effect.

3.18 Restricted Payments. The Company has not, since the date of the most recent financial statements referred to in Section 3.2, made any Restricted Payments, except dividends to shareholders of the Company consistent with past practices (subject to periodic increases).

3.19 Solvency The Company is not "insolvent," nor will the Company's incurrence of loans, direct or contingent, to repay the Obligations render the Company "insolvent." For purposes of this Section 3.19, a corporation is "insolvent" if (i) the "present

fair salable value" (as defined below) of its assets is less than the amount that will be required to pay its probable liability on its existing debts and other liabilities (including contingent liabilities) as they become absolute and matured; (ii) its property constitutes unreasonably small capital for it to carry out its business as now conducted and as proposed to be conducted including its capital needs; (iii) it intends to, or believes that it will, incur debts beyond its ability to pay such debts as they mature (taking into account the timing and amounts of cash to be received by it and amounts to be payable on or in respect of debt of it), or the cash available to it after taking into account all of its other anticipated uses of the cash is anticipated to be insufficient to pay all such amounts on or in respect of its debt when such amounts are required to be paid; or (iv) it believes that final judgments against it in actions for money damages will be rendered at a time when, or in an amount such that, it will be unable to satisfy any such judgments promptly in accordance with their terms (taking into account the maximum reasonable amount of such judgments in any such actions and the earliest reasonable time at which such judgments might be rendered), or the cash available to it after taking into account all other anticipated uses of its cash, is anticipated to be insufficient to pay all such judgments promptly in accordance with their terms. For purposes of this Section 3.19, the following terms have the following meanings: (x) the term "debts" includes any legal liability, whether matured or unmatured, liquidated, absolute, fixed or contingent, (y) the term "present fair salable value" of assets means the amount which may be realized, within a reasonable time, either through collection or sale of such assets at their regular market value and (z) the term "regular market value" means the amount which a capable and diligent businessman could obtain for the property in question within a reasonable time from an interested buyer who is willing to purchase under ordinary conditions.

3.20 Bank Holding Company. The Company has complied in all material respects with all federal, state and local laws pertaining to bank holding companies, including without limitation the Bank Holding Company Act of 1956, as amended, and there are no conditions precedent or subsequent to its engaging in the business of being a registered bank holding company.

3.21 FDIC Insurance. The deposits of each Bank Subsidiary of the Company are insured by the FDIC, and no event, act or omission has occurred which would adversely affect the status of any Bank Subsidiary as an FDIC insured bank.

3.22 Investigations. Neither the Company nor any Bank Subsidiary is (A) to the Company's knowledge, under investigation by any Government Authority, or (B) is operating under any formal or informal restrictions or understandings imposed by or agreed to in connection with any Government Authority.

#### SECTION 4 CONDITIONS PRECEDENT TO OBLIGATIONS

4.1 Initial Obligations. In addition to the terms and conditions otherwise contained herein, the obligation of the Lenders to make or incur any Obligation is conditioned on the Agent receiving, prior to or on the date of any Lender's first extension of credit, each of the following items in form, detail and content satisfactory to the Agent and its counsel:

(a) the executed Revolving Credit Notes;

(b) evidence to show that financing statements have been filed in any jurisdiction where such filing is necessary to perfect the security interests of the Agent created by the Pledge Agreement;

(c) a certificate of the secretary or an assistant secretary of the Company, certifying (i) an attached complete and correct copy of its bylaws; (ii) an attached complete and correct copy of resolutions duly adopted by its board of directors which have not been amended since their adoption and remain in full force and effect, authorizing the execution, delivery and performance of this Agreement and the Related Documents to which it is a party; (iii) that its articles of incorporation have not been amended since the date of the last date of amendment thereto indicated on the certificate of the secretary of state; and (iv) as to the incumbency and specimen signature of each officer executing this Agreement and all other Related Documents to which it is a party, and including a certification by another officer as to the incumbency and signature of the secretary or assistant secretary executing the certificate;

(d) the opinion of counsel for the Company substantially similar to the form in Exhibit 4.2(d);

(e) certificates of status or good standing for the Company issued by the Office of the Secretary of State of incorporation and the respective states in which the principal places of business of each is located, and from all states in which the activities of such Persons require them to be qualified and/or licensed to do business and where failure to be so qualified and/or licensed would have a material adverse effect on the Company and certified copies of the Articles of Incorporation for the Company, all issued by the Office of the Secretary of State of incorporation within 30 days of the date hereof;

(f) evidence that there are no Liens of record on the Property other than Permitted Liens (including UCC information searches in the names of the Company, and each of its Subsidiaries of the filing records in the offices of the Georgia Secretary of State and Union County, Georgia);

(g) the executed Pledge Agreement;

(h) the Collateral subject to the Pledge Agreement, together with stock powers executed in blank;

(i) the executed Intercreditor Agreement; and

(j) certificates of insurance evidencing that the Agent has been named as a lender loss payee and/or mortgagee under the insurance policies required to be carried under this Agreement together with a Lender's Loss Payable endorsement in favor of the Agent.

4.2 Subsequent Obligations. In addition to the terms and conditions otherwise contained herein, the obligation of the Lenders to make or incur subsequent Obligations is

subject to the satisfaction, on the date of making or incurring each such Obligation, of the following conditions:

- (a) Receipt by the Agent of a Loan Request executed by the Company;
- (b) All of the representations, warranties and acknowledgments of the Company and each Subsidiary contained in this Agreement and the Related Documents shall be true and accurate as if made on such date, and each request by the Company for credit shall constitute an affirmation by the Company that such representations, warranties and acknowledgements are then true and accurate;
- (c) There shall not exist on such date any Default and no Default shall occur as the result of the making or incurring of such Obligation;
- (d) The aggregate principal amount of all Revolving Loans and Term Loans outstanding together with the amount of any Revolving Loan requested shall not exceed the Revolving Loan Commitment; and
- (e) Each of the Related Documents shall remain in full force and effect and continue to secure the Obligations.

#### SECTION 5 AFFIRMATIVE COVENANTS

The Company covenants and agrees to and for the benefit of the Agent and the Lenders, that, from and after the date of this Agreement and until the Termination Date and until the entire amount of all Obligations to the Agent and the Lenders are paid in full, it shall and shall cause each Subsidiary to:

5.1 Corporate Existence; Compliance With Laws; Maintenance of Business; Taxes. (a) Maintain its corporate existence, licenses, permits, rights and franchises; (b) comply in all material respects with all Requirements of Law; (c) conduct its business substantially as now conducted; (d) pay before the same become delinquent and before penalties accrue thereon, all taxes, assessments and other government charges against it and its Property, and all other liabilities except to the extent and so long as the same are being contested in good faith by appropriate proceedings, with adequate reserves having been provided.

#### 5.2 Maintenance of Property; Insurance.

(a) Keep all Property useful and necessary in its business, whether leased or owned, in good condition, repair and working order (ordinary wear and tear excepted) and from time to time make or cause to be made all needed and proper repairs, renewals, replacements, additions and improvements so that the business carried on in connection therewith may be properly and advantageously conducted at all times.

(b) Maintain with good, reputable and financially sound insurance underwriters insurance of such nature and in such amounts as is customarily maintained by companies engaged in the same or similar business and such other insurance as may be



required by law or as may be reasonably required in writing by the Agent. Each policy providing liability coverage to the Company or a Subsidiary shall name the Agent (for itself and as agent for the other Lenders) as an additional insured, and each policy insuring the Property shall name the Agent (for itself and as agent for the other Lenders) as lender loss payee and/or mortgagee, as its interest appears, and all policies shall require the insurer to give the Agent 30 days prior written notice of the modification, cancellation or nonrenewal of the policy; the Company shall furnish copies of all such insurance policies or a certificate evidencing that the Company has complied with the requirements of this paragraph on the date hereof and on each renewal date of such policies; and within 90 days after the end of each Fiscal Year, the Company shall deliver to the Agent a schedule showing all insurance policies in force as of the end of such year, signed by an authorized officer of the Company.

5.3 Financial Statements; Notices. Maintain a standard and modern system of accounting in accordance with sound accounting practice, and furnish to the Lenders such information respecting the business, assets and financial condition of the Company and its Subsidiaries as the Agent may reasonably request and, without request, furnish to the Agent and each Lender:

(a) as soon as available, and in any event within 45 days after the end of each quarter of the Company's Fiscal Year, financial statements including the balance sheet for the Company and its Subsidiaries as of the end of each such quarter and statements of income, retained earnings and cash flows of the Company and its Subsidiaries for each such quarter and for that part of the Fiscal Year ending with such quarter, setting forth in each case, in comparative form, figures for the corresponding periods in the preceding Fiscal Year and a comparison of actual cash flow, income and capital expenditures with amounts budgeted for such period, all in reasonable detail and certified as true, correct and complete, subject to review and normal year-end adjustments, by the chief financial officer of the Company. The Lenders agree that posting to EDGAR of the Form 10-Q for the Company for each Fiscal Quarter, with prompt delivery of hard copies to the Lenders will meet the financial information requirements of this Section 5.3(a);

(b) as soon as available, and in any event within 90 days after the close of each Fiscal Year, a copy of the detailed annual audit report for such year and accompanying financial statements for the Company and its Subsidiaries as of the end of such year, containing balance sheets and statements of income, retained earnings and cash flows for such year and for the previous Fiscal Year, as audited by independent certified public accountants of recognized standing selected by the Company and satisfactory to the Lenders, which report shall be accompanied by (i) the unqualified opinion of such accountants to the effect that the statements present fairly, in all material respects, the financial position of the Company as of the end of such year and the results of its operations and its cash flows for the year then ended in conformity with GAAP; (ii) a certificate of such accountants showing their calculation of the financial covenants contained herein and stating that their audit disclosed no Default or that their audit disclosed a Default and specifying the same and the action taken or proposed to be taken with respect thereto; and (iii) any supplementary comments and reports submitted by such accountants to the Company including the management letter, if any. The Lenders agree that the posting to EDGAR of the FORM 10-K for the Company for each Fiscal Year with prompt delivery of

hard copies to the Lenders will meet the financial information requirements of this Section 5.3(b);

(c) with the financial statements described in Sections 5.3(a) and 5.3(b), the certificate of the president or chief financial officer of the Company: (i) showing the calculations of the financial covenants contained herein; (ii) stating that a review of the activities of the Company during such period has been made under his supervision to determine whether the Company has observed, performed and fulfilled each and every covenant and condition in this Agreement and the Related Documents; and (iii) stating that no Default has occurred (or if such Default has occurred, specifying the nature thereof and the period of existence thereof and the steps, if any, being undertaken to correct the same);

(d) as soon as available, and in any event within five Business Days, a copy of each other filing and report made by the Company with or to any securities exchange or the Securities and Exchange Commission, and of each communication from the Company to its shareholders generally; and

(e) as soon as available, and in any event within 45 days after the end of each Fiscal Quarter, the complete Call Report prepared by Company and/or each Bank Subsidiary at the end of such Fiscal Quarter in compliance with the requirements of any federal or state regulatory agency which has authority to examine the Company and/or any Bank Subsidiary, all prepared in accordance with the requirements imposed by the applicable regulatory authorities;

(f) as soon as available, and in any event within five days, (but without duplication of any other requirements set forth in this Section 5.2) a copy of all periodic reports which are required by law to be furnished to any regulatory authority having jurisdiction over Company or any Bank Subsidiary (including without limitation Federal Reserve Bank reports, but excluding any report which applicable law or regulation prohibits the Company or a Bank Subsidiary from furnishing to the Agent and the Lenders); and

(g) promptly upon learning of the occurrence of any of the following, written notice thereof, describing the same and the steps being taken with respect thereto: (i) the occurrence of any Default; (ii) the institution of, or any materially adverse determination or development in, any litigation, arbitration proceeding or governmental proceeding; (iii) the occurrence of a "reportable event" under, or the institution of steps by the Company or any Subsidiary to withdraw from, or the institution of any steps to terminate, any Employee Plan as to which the Company or any Subsidiary may have liability; (iv) the commencement of any dispute which might lead to the modification, transfer, revocation, suspension or termination of this Agreement or any Related Document; or (v) any event which would have a Material Adverse Effect; (vi) any change in the Chief Executive Officer or Executive Vice President of the Company or any change in the Chief Executive Officer of any Bank Subsidiary.

5.4 Inspection of Property and Records. At any reasonable time following reasonable notice, as often as may be reasonably desired and at the Company's expense from and after the occurrence of and during the continuance of an Event of Default, permit representatives of the Agent and any Lender to visit its Property, examine its books and

records and discuss its affairs, finances and accounts with its officers and independent certified public accountants (who shall be instructed by the Company to make available to the Agent and any Lender or its agents the work papers of such accountants) and the Company shall facilitate such inspection and examination.

5.5 Use of Proceeds. Use the entire proceeds of the Obligations for general corporate purposes of the Company.

5.6 Comply With, Pay and Discharge All Notes, Mortgages, Deeds of Trust and Leases. Comply with, pay and discharge all existing notes, mortgages, deeds of trust, leases, indentures and any other contractual arrangements to which the Company or any Subsidiary is a party (including, without limitation, all Indebtedness) in accordance with the respective terms of such instruments so as to prevent any default thereunder.

5.7 Environmental Compliance.

(a) Maintain at all times all permits, licenses and other authorizations required under Environmental Laws, and comply in all respects with all terms and conditions of the required permits, licenses and authorizations and all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in the Environmental Laws.

(b) Notify the Agent promptly upon obtaining knowledge that (i) any Property previously or presently owned or operated is the subject of an environmental investigation by any Government Authority having jurisdiction over the enforcement of Environmental Laws, (ii) the Company or any of its Subsidiaries has been named as a responsible party subject to Environmental Liability, or (iii) the Company obtains knowledge of any Hazardous Substance located on any Property except in compliance with all Requirements of Law.

(c) At any reasonable time following the occurrence of an Event of Default and following reasonable notice, and as often as may be reasonably desired, permit the Agent or an independent consultant selected by the Agent to conduct an environmental investigation satisfactory to the Agent for the purpose of determining whether the Company, each Subsidiary and its Property comply with Environmental Laws and whether there exists any condition or circumstance which may require a cleanup, removal or other remedial action by the Company or a Subsidiary with respect to any Hazardous Substance. The Company and its Subsidiaries shall facilitate such environmental audit. The Agent shall provide the Company, at the Company's request, with all reports and findings but the Company may not rely on such environmental investigation for any purpose. Any such environmental investigation of Property shall be at the Company's expense at any time following an Event of Default; provided, however, that the Agent's environmental investigation shall not be at the Company's expense if (i) a Government Authority or a firm or firms of geotechnical engineers and/or environmental consultants hired by the Company and reasonably acceptable to the Agent shall undertake to make an environmental audit, and (ii) the Company shall provide the Agent at the Company's expense with, and the Agent shall be entitled to rely on, all reports and findings of such Government Authority or

geotechnical engineers as soon as such reports and findings are made available to the Company.

Notwithstanding the foregoing, nothing contained in this Agreement, or in the Related Documents, or in the enforcement of this Agreement or the Related Documents, shall constitute or be construed as granting or providing the right, power or capacity to the Agent to exercise (a) decision making control of the Company's or any Subsidiary's compliance with any environmental law, or (b) day to day decision making of the Company or any Subsidiary with respect to (i) compliance with environmental laws or (ii) all or substantially all of the operational aspects of the Company or any Subsidiary.

#### 5.8 Fees and Costs.

(a) Pay the Agent for the Pro Rata benefit of the Lenders on the first Business Day of each of January, April, July and October, in arrears, the accrued and unpaid commitment fee for the Revolving Loan Commitment. The commitment fee shall accrue at a rate per annum equal to fifteen-hundredth percent (.15%) of the difference between (i) the Revolving Loan Commitment and (ii) the outstanding principal balance of the Revolving Loans and Term Loans. The commitment fee shall be computed and adjusted daily based on the actual number of days elapsed in a year of 360 days. All unpaid commitment fees shall be due and payable on the Termination Date. The Agent may debit to the Company's Loan Account all commitment fees when due, without prior notice to or consent of the Company.

(b) Pay immediately upon receipt of an invoice the reasonable fees and expenses incurred by the Agent in connection with any inspection pursuant to Section 5.4.

(c) Pay immediately upon receipt of an invoice from the Agent all reasonable fees and expenses incurred by the Agent and/or the Lenders with respect to this Agreement, the Related Documents and the Obligations, and any amendments thereof and supplements thereto, including, without limitation, appraisal fees, environmental inspection fees and the reasonable fees of counsel in connection with the preparation and negotiation of this Agreement, the Related Documents and all amendments thereto, and any waivers of the terms and provisions thereof and the consummation of the transactions contemplated herein.

(d) Pay immediately upon receipt of an invoice from the Agent all reasonable fees and expenses (including attorneys fees) incurred by the Agent and/or the Lenders in seeking advice under this Agreement and the Related Documents with respect to protection or enforcement (including collection and disposition of Collateral) of the Agent's and the Lender's rights and remedies under this Agreement and the Related Documents and with respect to the Obligations (including collection thereof) and all costs and expenses which may be incurred by the Agent and/or the Lenders as a consequence of a Default as provided in Section 7.2(d) and all reasonable fees and expenses incurred by the Agent and/or the Lenders in connection with any bankruptcy, other debtor relief proceeding or any federal or state liquidation, rehabilitation or supervisory proceeding involving the Company or any Subsidiary.

5.9 Indemnity. Indemnify the Agent and the Lenders, and their respective employees, officers, directors, shareholders, agents, attorneys, successors and assigns against any and all losses, claims, damages, liabilities, obligations, penalties, actions, judgments, suits, costs and expenses of any kind or nature whatsoever, including, without limitation, reasonable attorneys' fees and expenses, incurred by them arising out of, in any way connected with, or as a result of: (a) this Agreement or the Related Documents or the transactions contemplated hereby or protection or enforcement (including collection or disposition of Collateral) of the Agent's and the Lender's rights under this Agreement or the Related Documents; (b) the execution and delivery of this Agreement by the Company and the performance of the Obligations; (c) any violation of Environmental Laws or any other Requirements of Law by the Company or any Subsidiary or any of its Property as well as any cost or expense incurred in remedying such violation; and (d) any claim, litigation, investigation or proceedings relating to any of the foregoing or the transactions contemplated by this Agreement, whether or not the Agent and/or the Lenders is a party thereto; provided, however, that such indemnity shall not apply to any such losses, claims, damages, liabilities or related expenses to the extent caused by any willful misconduct or bad faith of the Agent and/or the Lenders. The foregoing indemnities shall survive the Termination Date, the consummation of the transactions contemplated by this Agreement, the repayment of the Obligations and the invalidity or unenforceability of any term or provision of this Agreement or of the Related Documents and shall remain in effect regardless of any investigation made by or on behalf of the Agent and/or the Lenders or the Company and the content or accuracy of any representation or warranty made under this Agreement.

5.10 Appraisals. If and to the extent required at any time of the Agent or any Lender by any Government Authority or Requirements of Law, permit an independent appraiser selected by the Agent or such Lender to conduct appraisals at any reasonable time following reasonable notice, at the Company's expense, of the Property. The Company shall facilitate such appraisals and may obtain copies of, but may not rely, on such appraisals for any purpose.

5.11 Well Capitalized. With respect to each Bank Subsidiary, cause such Bank Subsidiary to be at all times "well capitalized", and, with respect to the Company, the Company shall be at all times "well capitalized", each for purposes of the Federal Deposit Insurance Corporation Improvement Act of 1991 and any regulations issued thereunder (including 12 C.F.R. Section 325), as amended or supplemented from time to time (it being understood that if such terms are not directly applicable to a bank holding company, for the purpose of this Section, they shall be assumed to be so applicable and calculated accordingly).

5.12 Delivery of Additional Stock of UCB Georgia. If the aggregate book value of the Pledged Securities (as that term is defined in the Pledge Agreement) of UCB Georgia becomes \$90,000,000.00 or less, the Company shall promptly deliver to the Agent, for the benefit of the Lenders, additional shares of UCB Georgia (accompanied by a stock transfer power, duly endorsed in blank by the Company, to the benefit of the Agent) so that the sum of the value of such additional shares plus the aggregate book value of the Pledged Securities is at all times equal to or in excess of \$90,000,000.00. The Company shall also execute any security documents the Agent may request to evidence and perfect the Agent's rights in such additional stock.

## SECTION 6 NEGATIVE COVENANTS

The Company covenants and agrees that, from and after the date of this Agreement and until the Termination Date and until all Obligations to the Agent and the Lenders are paid in full, the Company and each Subsidiary shall not directly or indirectly without the prior written consent of the Required Lenders:

6.1 Sale of Assets, Consolidation, Merger, Acquisitions, Etc. (a) Enter into a Change of Control transaction; (b) purchase or otherwise acquire all or substantially all of the assets or stock of another Person (which Person would, upon the consummation of such transaction, become a Bank Subsidiary) if, as a result of such transaction, the Total Assets of the Company and all of its Subsidiaries increase by more than 33%; or (c) purchase or otherwise acquire all or substantially all of the assets or stock of any Person (which would not, upon the consummation of such transaction, become a Bank Subsidiary) if the total revenue of such Person, as determined in accordance with GAAP, is more than 20% of the Company's total revenue in the immediately preceding Fiscal Year, which, solely for purposes of this Section 6.1, total revenue shall equal the net interest income of the Company plus the non interest income of the Company, each for the immediately preceding Fiscal Year and each determined in accordance with GAAP.

6.2 Indebtedness. Issue, create, incur, assume or otherwise become liable with respect to (or agree to issue, create, incur, assume or otherwise become liable with respect to), or permit to remain outstanding, any Indebtedness, except: (a) Indebtedness disclosed on the Company's most recent financial statements described in Section 3.2(a), provided that such Indebtedness shall not be renewed, extended or increased; (b) Indebtedness to Banker's Bank under the Banker's Bank Loan in an amount not to exceed \$40,000,000; (c) Indebtedness for commercial paper of the Company in an amount not to exceed \$40,000,000; (d) Federal Home Loan Bank Indebtedness or Federal Funds Indebtedness incurred in the ordinary course of business by any Bank Subsidiary; (e) Trust Preferred Indebtedness; and (f) Indebtedness with respect to deposit accounts and other similar accounts, including repurchase agreements.

6.3 Liens. Create or permit to be created or allow to exist any Lien upon or interest in any Property except Permitted Liens.

6.4 Dividend, Distributions. Make any Restricted Payments; provided, however, that, so long as no Event of Default has occurred and is continuing, or will occur as a result of any such payment, the Company may pay dividends and distributions to its shareholders consistent with past practices.

6.5 Loans, Investments. Make or commit to make advances, loans, extensions of credit or capital contributions to, or purchases of any stock, bonds, notes, debentures or other securities of, or make any other investment in, any Person except, advances in the ordinary course of business to Subsidiaries consistent with past practices or commitments to make advances to Persons who will become Subsidiaries, or as otherwise permitted by applicable governmental laws and regulations.

6.6 Compliance with ERISA. (a) Terminate any Employee Plan so as to result in any material liability to PBGC; (b) engage in any "prohibited transaction" (as defined in Section 4975 of the Code) involving any Employee Plan which would result in a material liability for an excise tax or civil penalty in connection therewith; or (c) incur or suffer to exist any material "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, involving any condition, which presents a risk of incurring a material liability to PBGC by reason of termination of any such Employee Plan.

6.7 Affiliates. Permit any transaction with any Affiliate that violates Section 23A or 23B of the Federal Reserve Act, as amended.

6.8 Loan Loss Reserves. Permit, on a consolidated basis as of the last day of each Fiscal Quarter, the ratio of Loan Loss Reserves to Nonperforming Loans to be less than 1.50 to 1 or permit, on a consolidated basis as of the last day of each Fiscal Quarter, the Loan Loss Reserves as a percentage of Total Gross Loans to be less than 1%.

6.9 Nonperforming Loans to Total Gross Loans Ratio. Permit, on a consolidated basis as of the last day of each Fiscal Quarter, the ratio (calculated as a percentage) of Nonperforming Loans to Total Gross Loans to be greater than 1.50%.

6.10 Internally Classified Loans to Capital. Permit, on a consolidated basis as of the last day of each Fiscal Quarter, the ratio (calculated as a percentage) of Internally Classified Loans to Capital to exceed 30%.

6.11 Return on Average Assets Ratio. Permit, on a consolidated basis as of the end of each Fiscal Year, the Return on Average Assets ratio (calculated as a percentage) to be less than nine-tenths of one percent (.90%).

6.12 Net Chargeoffs to Total Gross Loans. Permit the Bank Subsidiaries, on a consolidated basis as of the last day of each Fiscal Quarter, to incur Net Chargeoffs in an amount greater than one percent (1.0%) of Total Gross Loans, all as determined on a rolling four-quarter basis.

6.13 Internally Classified Loans. Without the prior written consent of the Required Lenders, change the standards for determining Internally Classified Loans.

## SECTION 7 DEFAULT AND REMEDIES

7.1 Events of Default Defined. Any one or more of the following shall constitute an "Event of Default":

(a) the Company shall fail to pay any Obligation within one Business Day of the same becoming due and payable, whether upon demand, at maturity, by acceleration or otherwise;

(b) the Company shall fail to observe or perform any of the covenants, agreements or conditions contained in this Agreement or the Related Documents;

(c) the Company or any Subsidiary shall default (as principal or guarantor or otherwise) in the payment of any other Indebtedness aggregating \$2,500,000 or more, or with respect to any of the provisions of any agreement evidencing such Indebtedness, and such default shall continue beyond any period of grace, if any, specified in such agreement, unless the Company or the Subsidiary is contesting such default in good faith and the Agent agrees, in its reasonable discretion, that the Company or the Subsidiary is so contesting such default;

(d) any representation or warranty made by the Company or any Subsidiary herein or in any of the Related Documents or in any certificate, document or financial statement delivered to the Agent and/or the Lenders shall prove to have been incorrect in any material adverse respect as of the time when made or given;

(e) a final judgment (or judgments) for the payment of amounts aggregating in excess of \$250,000 shall be entered against the Company or any Subsidiary, and such judgment (or judgments) shall remain outstanding and unsatisfied, unbonded or unstayed after thirty days from the date of entry thereof;

(f) the Company or any Subsidiary shall (i) become insolvent or take or fail to take any action which constitutes an admission of inability to pay its debts as they mature; (ii) make an assignment for the benefit of creditors; (iii) petition or apply to any tribunal for the appointment of a custodian, receiver or any trustee for the Company or any Subsidiary or a substantial part of its respective assets; (vi) suffer a rehabilitation proceeding, custodianship, receivership or trusteeship to continue undischarged for a period of thirty days or more; (iv) commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; (v) by any act or omission indicate its consent to, approval of or acquiescence in any rehabilitation proceeding or any such petition, application or proceeding or order for relief or the appointment of a custodian, receiver or any trustee for it or any substantial part of any of its properties; or adopts a plan of liquidation of its assets;

(g) if any Person shall: (i) petition or apply to any tribunal for the appointment of a custodian, receiver or any trustee for the Company or any Subsidiary or a substantial part of its respective assets which continues undischarged for a period of thirty days or more; (ii) commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, rehabilitation, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, in which an order for relief is entered or which remains undismissed for a period of thirty days or more;

(h) any Government Authority or any geotechnical engineer or environmental consultant hired by the Company, the Agent, the Lenders or any Government Authority shall determine that the potential uninsured or unrecoverable liability of the Company or a Subsidiary for damages caused by the discharge of any Hazardous Substance, including liability for real property damage or remedial action related thereto or liability for personal injury claims, exceeds \$250,000 and the Company is unable to provide for such liability in a manner reasonably acceptable in good faith to the Agent;



(i) (A) the FDIC, the Federal Reserve Board, the Office of Thrift Supervision, the Office of the Comptroller of Currency, the Georgia Department of Banking and Finance, the North Carolina Banking Commission, the Tennessee Department of Financial Institutions, or any other state or federal regulatory entity having or claiming jurisdiction over the Company or any Subsidiary shall (a) issue any formal or informal material order or directive involving activities deemed unsafe or unsound by the Company or any Bank Subsidiary, (b) issue a Memorandum of Understanding, capital maintenance agreement or cease and desist order involving the Company or any Subsidiary, or (c) cause the suspension or removal of the Chief Executive Officer or any Executive Vice President of the Company or the Chief Executive Officer of any Bank Subsidiary, or (B) the FDIC shall terminate its insurance coverage with respect to the Company or any Subsidiary;

(j) this Agreement or any of the Related Documents shall at any time cease to be in full force and effect, or the Company shall contest or deny any liability or obligation under, or attempt to revoke or terminate, this Agreement or any Related Document; or

(k) a default shall occur under the Banker's Bank Loan Agreement.

7.2 Remedies Upon Event of Default. Upon the occurrence of an Event of Default (which has not been cured to the extent cure is expressly permitted):

(a) Specified in clause (f) or (g) of Section 7.1, then, without presentment, notice, demand or action of any kind by the Agent or the Lenders, all of which are hereby waived: (i) the Loan Commitments and the obligations of the Lenders to make any further advances to the Company shall automatically and immediately terminate; and (ii) the entire amount of the Obligations shall be automatically accelerated and immediately due and payable;

(b) Specified in any clauses of Section 7.1 but not described in 7.2(a), the Agent may (and shall, upon the written direction of the Required Lenders) upon written notice to the Company, (i) immediately terminate the Lenders' Loan Commitments, and the same shall immediately terminate; and (ii) declare the entire amount of the Obligations immediately accelerated, due and payable;

(c) The Agent and any Lender may at any time, without prior notice or demand, set off any credit balance or other money now or hereafter owed to the Company, any Subsidiary or any guarantor against all or any part of the Company's Obligations hereunder; and

(d) The Agent and Lenders shall have all of the rights and remedies provided by this Agreement and the other Related Documents, and all rights and remedies provided by law and in equity, by statute or otherwise.

No remedy herein conferred upon the Agent or the Lenders is intended to be exclusive of any other right and remedy, and each right and remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity. In addition to and not in lieu of any other right or remedy the Agent or the Lenders might have, the Required Lenders may, at any time in their sole discretion, require the Agent to do or

perform anything which the Company may be required to do or perform hereunder, and the Company shall reimburse the Agent upon demand for any cost or expense which the Agent may incur in such respect, together with interest thereon at the Default Rate until paid. No failure or delay on the part of the Agent or Lenders in exercising any right or remedy hereunder shall operate as a waiver thereof nor shall any single or partial exercise of any right hereunder preclude any further exercise thereof or the exercise of any other right or remedy.

7.3 Termination of Commitments. During any time an Event of Default has occurred and is continuing, and notwithstanding any right to cure such Event of Default or anything to the contrary herein or in any of the Related Documents, the Agent and the Lenders shall have no further obligation to make any further Loans or advances to the Company for any reason, but any Loans or advances made by the Agent or the Lenders to the Company in their sole discretion shall become part of the Obligations.

#### SECTION 8 THE AGENT

8.1 Authorization and Action. Each Lender hereby appoints and authorizes Agent to be its agent hereunder, and to be its possessory agent as to all Collateral, and to take such action on its behalf and to exercise such rights, remedies and powers under this Agreement and the other Related Documents as are delegated to Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto as determined solely by Agent. Each Lender hereby acknowledges that Agent shall not have, by reason of this Agreement, assumed a fiduciary relationship in respect of any Lender. In performing its functions and duties under this Agreement, Agent shall act solely as agent of Lenders and shall not assume, or be deemed to have assumed, any obligation toward, or relationship of agency or trust with or for, the Company or its Subsidiaries. As to any matters not expressly provided for by this Agreement and the other Related Documents (including, without limitation, enforcement or collection of the Notes), Agent may, but shall not be required to, exercise any discretion or take any action permitted thereunder, provided, that the Agent shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the written instructions of the Required Lenders, and such written instructions shall be binding upon all Lenders; provided, however, that that Agent shall be fully justified in failing or refusing to take any action under this Agreement or the other Related Documents, or as to the Collateral, or as to any third party, unless Agent shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which Agent may incur by reason of taking or being requested not to take, any action requested by the Required Lenders. If Agent seeks the consent or approval of Required Lenders (or a greater or lesser number of Lenders as required in this Agreement) with respect to any action or decision hereunder, Agent shall send written notice thereof to each Lender and thereafter shall notify each Lender at any time that the Required Lenders have instructed Agent to act or refrain from acting pursuant hereto. In requesting the Agent to act or refrain from acting, each Lender shall send its written instructions to the other Lenders as well as the Agent.

8.2 Agent's Reliance, Etc. Neither Agent, nor any Affiliate of Agent, nor any of their respective directors, officers, attorneys, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement or the other Related Documents, except for its or their own willful misconduct or bad faith. Without limiting the generality of the foregoing, Agent: (i) may consult with legal counsel,

independent public accountants and other experts selected by it and shall not be liable under any circumstances for any action reasonably taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts, (ii) makes no warranties or representations to any Lender and shall not be responsible to any Lender for any recitals, statements, warranties or representations made by the Company, its Subsidiaries, any Lender or any third party in or in connection with this Agreement or any other Related Documents whether now or at any time in the future; (iii) shall not have any duty (beyond Agent's customary and prudent practices in respect of loans of the same type as the Loans provided for hereunder in which Agent is the only lender), to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or the other Related Documents on the part of Company or its Subsidiaries, to inspect the Property (including the books and records) of the Company, its Subsidiaries and the Collateral, or to monitor the financial condition of the Company or its Subsidiaries or the value, condition or location of the Collateral, or undertake any verification of the perfection or priority of the Agent's security interest or Lien in the Collateral; (iv) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Related Documents or any other instrument or document furnished pursuant hereto or thereto; (v) shall not be liable under any circumstances to any Lender for any action taken, or inaction, by Agent upon the instructions of Required Lenders pursuant to Section 8.1 hereof or refraining to take any action pending such written instructions; (vi) shall not be liable for any payments or distributions of loans and advances made by it in good faith hereunder or under the Related Documents; (vii) shall incur no liability by acting upon any notice, consent, certificate, message or other instrument or writing (which may be by telephone, facsimile, telegram, cable or telex) believed in good faith by it to be genuine and signed or sent by the proper party or parties; (viii) may assume that no Default or Event of Default has occurred and is continuing, unless Agent has actual knowledge of the Default or Event of Default, has received written notice from the Company or the Company's public accountants stating the nature of the Event of Default, or has received written notice from a Lender stating the nature of the Event of Default and that such Lender considers the Event of Default to have occurred and to be continuing; and (ix) may assume the accuracy of the statement of the Loan Account, if the Company has not notified Agent to the contrary within 30 days of receipt such statement by the Company. In the event any payments of Loans and advances made by the Agent are determined to have been made in error, the Agent shall use its best efforts to recover such payment, but shall not be personally liable for the recovery or amount of such payment for any reason to any Person, except if caused by Agent's willful misconduct.

8.3 M&I and Affiliates. With respect to its Loan Commitment hereunder to make Loans, M&I shall have the same rights and powers under this Agreement and the other Related Documents as any other Lender, and may exercise the same as though it were not Agent without any disclosure obligation, conflict of interest, requirement of disinterestedness, or liability for self-dealing; and the terms "Lender," "Lenders" or "Required Lenders" shall, unless otherwise expressly indicated, include M&I in its individual capacity as a Lender. M&I and its Subsidiaries and Affiliates may lend money to, and generally engage in any kind of business with, the Company and its Subsidiaries (including any Rate Management Transactions), and any Person who may do business with or own securities of the Company, any of its Subsidiaries or any guarantor, all as if M&I were not Agent and without any liability to any Lender or duty to disclose such relationship or account therefor to any Lender.

Furthermore, each Lender agrees that any Lender may enter into Rate Management Transactions with the Company or its Subsidiaries with notice to (but not the consent of) the other Lenders, and that the Company's Obligations to such Lenders with respect to Rate Management Transactions related to the Revolving Loans and/or Term Loans shall be secured by the Collateral on a parri passu basis to the Company's repayment of its Obligations to the Lenders hereunder. The Company's Obligations to any Lender under any Rate Management Transactions other than those described above if secured by the Collateral, shall be secured by the Collateral on a subordinated basis as described in section 8.8.

8.4 Individual Lender Credit Decisions. Each Lender acknowledges that it has, independently and without reliance upon Agent or any other Lender, made its own independent credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will independently, and without reliance upon Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and making Loans hereunder. Agent shall not have any duty or responsibility to provide any Lender with any credit or other similar information regarding the Company and its Subsidiaries except as to the delivery of a copy of the financial statements and other certificates provided by the Company to Agent hereunder to the extent not provided directly to such Lender. In the event any Lender desires to obtain any financial, business or Collateral information from the Company or its Subsidiaries, such Lender shall request Agent to obtain such information from the Company or such Subsidiary prior to the Lender directly requesting such information from the Company or its Subsidiaries. Notwithstanding the foregoing, Agent agrees to turn over to Lenders, upon written request, all information received by Agent from the Company and its Subsidiaries.

8.5 Indemnification. Each Lender agrees to indemnify Agent, whether or not the Agent is subject to indemnification from any other Person, in accordance with their Pro Rata shares, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including attorneys' and experts' fees) or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of this Agreement or any Related Document, the Collateral, the Company, its Subsidiaries, any guarantor or any action taken or omitted by Agent under or pursuant to this Agreement or the Related Documents; provided, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including attorneys' and experts' fees) or disbursements resulting from Agent's willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse Agent promptly upon written demand for its Pro Rata share of any reasonable out-of-pocket expenses (including attorneys' and experts' fees) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiation, legal proceedings or otherwise) of, or obtaining legal advice in respect to, the Agent's rights remedies or responsibilities under this Agreement and the Related Documents, and with respect to the Collateral and the claims of third party's against Agent (to the extent that Agent is not reimbursed for such expenses by the Company within thirty (30) days of written demand). The obligations of Lenders under this Section 8.5 are several and not joint, and shall survive the payment in full of all Obligations and the termination of this Agreement. In the event that after payment and distribution of any amount by Agent to Lenders, any Lender or any other Person, including the Company, any

creditor of the Company, a liquidator, or trustee in bankruptcy, recovers from Agent any amount paid to Agent or disbursed by Agent to the Lenders for any reason (other than due to the willful misconduct of Agent) then each Lender, in accordance with their respective Pro Rata shares, shall reimburse Agent for all such amounts.

8.6 Rights and Remedies to be Exercised by Agent/Lenders. In the event any right or remedy may be exercised with respect to this Agreement, any other Related Document or the Collateral, Agent shall pursue any right or remedies available to Agent designated in writing by the Required Lenders, provided, that Agent shall not be required to act or not to act if to do so would unreasonably expose Agent to liability or would be clearly contrary to this Agreement, any Related Document or to applicable law and provided further that with respect to the exercise of any right of setoff or other remedy necessary to preserve the Collateral or the Lender's rights to the Collateral against third parties, the Agent may take such actions without the prior written consent of the Required Lenders, but shall cease any such actions upon written notice from the Required Lenders. Each Lender agrees that, without the prior written consent of Agent or the Required Lenders, no Lender shall have any right individually (a) to realize upon any Collateral, (b) to enforce any provision of this Agreement or any Related Document, or (c) to exercise any right or remedy under this Agreement or any Related Document; except that any Lender may exercise its right of setoff against the Collateral for the benefit of the Lenders without the prior written consent of the Agent or the Required Lenders, but only if any amounts so obtained from such setoff shall be promptly delivered to the Agent for distribution to the Lenders as provided for herein.

8.7 Agency Provisions Relating to Collateral. The Company and each Lender authorizes and ratifies Agent's entry into this Agreement and the Related Documents for the benefit of Lenders. Each Lender agrees that any action taken by Agent with respect to the Company and the Collateral in accordance with the provisions of this Agreement or the Related Documents, and the exercise by Agent of the powers set forth herein or therein, together with such other powers as are reasonably incidental thereto as determined in the sole and reasonable discretion of Agent, or at the written request of the Required Lenders in any event, shall be authorized and binding upon all Lenders. Agent is hereby authorized on behalf of all Lenders, without the necessity of any notice to or further consent from any Lender, from time to time prior to an Event of Default, to take any action with respect to the Company, its Subsidiaries, any guarantor, any Collateral or the Related Documents which may be necessary to perfect and administer the Agent's Liens upon the Collateral, for the ratable benefit of Lenders. Lenders hereby irrevocably authorize Agent, at its option and in its reasonable discretion, to release any Lien granted to or held by Agent upon any Collateral: (i) which pursuant to the terms of this Agreement or the Related Documents may be sold or transferred by the Company or its Subsidiaries; or (ii) in connection with any foreclosure sale or other disposition of Collateral during the continuation of an Event of Default; or (iii) if approved or authorized or ratified in writing by all Lenders. Upon request by Agent at any time, Lenders will promptly confirm in writing Agent's authority to release any items of Collateral pursuant hereto. Agent shall have no obligation whatsoever to any Lender or to any other Person to verify that the Collateral exists, or is owned by the Company or its Subsidiaries, or is protected or insured as required by this Agreement, or is subject to a Lien to a third party, or that the Liens granted to Agent herein or pursuant to the Related Documents have been properly created, perfected, preserved or are entitled to any particular priority. Furthermore, Agent shall have no obligation whatsoever to any Lender or to any other Person to exercise at any

particular right, remedy or power on its own, or be under any duty of care, disclosure or fidelity. Agent may act in any manner it may reasonably deem appropriate, in its sole and reasonable discretion as regards this Agreement, the Related Documents, the Company, its Subsidiaries, any guarantor and the Collateral and which is not expressly inconsistent with the provisions of this Agreement or such Related Documents, and Agent shall have no duty or liability whatsoever to any Lender therefor.

8.8 Agent's Right to Purchase Obligations/M&I's Rights to Make Independent Loans and Rate Management Transactions. Agent shall have the right, but shall not be obligated, at any time upon thirty (30) days prior written notice to any Lender and with the consent of such Lender, which may be granted or withheld in such Lender's sole discretion, to purchase for Agent's own account all of such Lender's interests in this Agreement, the other Related Documents and the Obligations, for the face amount of the outstanding Obligations owed to such Lender, including without limitation all accrued and unpaid interest and fees. Notwithstanding anything to the contrary herein, any Lender may make additional financial accommodations to the Company and its Subsidiaries (including Rate Management Transactions which are unrelated to the Revolving Loans or Term Loans) with notice to (but not the consent of) the other Lenders, and the Company's and such Subsidiaries' obligations with respect to the financial accommodations may be secured by the Collateral provided that after a Default hereunder, all such obligations on such financial accommodations shall be secured by the Collateral on a subordinated basis to the payment in full of the Company's Obligations hereunder and paid from the Collateral only after the Company's Obligations to the Agent and Lenders hereunder have been paid in full (except as may be otherwise agreed to in writing by all the Lenders).

8.9 Right of Sale and Participations of Lender's Interests. The Company hereby consents to the sale of or the grant of a participation by any Lender in all or part of such Lender's Pro Rata right, title and interest under this Agreement, the Loans, the Loan Commitments, the Related Documents and in the Collateral (collectively "Lender's Interest") subject to the terms and conditions set forth below:

(a) Sales and Assignments. Each Lender hereby agrees that, with respect to any sale or assignment of such Lender's Interests: (i) no such sale or assignment shall be for an amount of less than the entire amount of such Lender's Interest; (ii) no such sale or assignment shall be made to a financial institution which has less than \$1,000,000,000 in stockholders' equity or to a Foreign Lender; (iii) each such sale shall be evidenced by the Assignment and Assumption Agreement described in EXHIBIT E hereto and such other agreements and certifications as Agent may reasonably request, (iv) Agent (and, if no Default exists, the Company) must consent (which consent shall not be unreasonably withheld) to each such sale, and (v) the assigning Lender shall pay to Agent a processing and recordation fee of \$3,500 and any reasonable out-of-pocket attorneys' fees and expenses incurred by Agent in connection with any such sale, and (vi) the assigning Lender shall have paid all amounts due hereunder to Agent. After such sale has been consummated (x) the assignee lender thereupon shall become a "Lender" for all purposes of this Agreement and (y) the assigning Lender shall have no further liability for funding any future Loan Commitments assumed by such other Lender, or any future costs and expenses payable by a Lender hereunder, but the assigning Lender shall remain obligated to indemnify the Agent pursuant to

the terms hereof as to any matters which arose or accrued prior to the effective date of sale of such Lender's Interest.

(b) Participations. Any Lender may grant participations in its Lender's Interest to another lending institution (other than a Foreign Lender) (a "Participant"), provided that (i) no Participant shall thereby acquire any direct rights under this Agreement, (ii) no Participant shall be granted any right to consent to any amendment or otherwise participate in any meetings or deliberations of the Lenders, (iii) no sale of a participation in extensions of credit shall in any manner relieve the originating Lender of its obligations hereunder, (iv) the originating Lender shall remain solely responsible for the performance of its obligations under this Agreement and the Related Documents, (v) the Company and Agent shall continue to deal solely and directly with the originating Lender in connection with the originating Lender's rights and obligations under this Agreement and the other Related Documents, (vi) in no event shall such Participant grant a participation in its participation interest in the Obligations to a third party without the prior written consent of Agent, (vii) all amounts payable by the Company hereunder shall be determined as if the originating Lender had not sold any such participation, and (viii) such Participant shall be required to execute a confidentiality agreement as to all information received from Agent or the Company as regards the Company and the Participant shall have no rights against Agent, any of the other Lenders or the Collateral.

(c) Certain Agreements of the Company. The Company agrees that (i) it will use diligent efforts to assist and cooperate with each Lender in any manner reasonably requested by such Lender to effect the sale of or participation in any Lender's Interest and (ii) each Lender may disclose credit information regarding the Company to any potential participant or assignee that is acceptable to the Company (which right the Company shall have only so long as no Event of Default has occurred and is continuing), provided such disclosures are made subject to the confidentiality provisions set forth below.

8.10 Amendment/Required Consent. No amendment, supplement, consent or waiver of any provision of this Agreement or any Related Document shall be effective unless the same shall be in writing and signed by Agent, the Required Lenders and the Company, and such amendment, waiver or consent shall be effective for the specific purpose for which given; provided; however, that no amendment, modification, waiver or consent shall be effective as to any of the following unless approved in writing by all Lenders (except as to any Delinquent Lender): (a) increase or decrease the aggregate Revolving Loan Commitments; (b) reduce the principal of, or interest on, any Note or other amount payable hereunder; (c) increase or decrease any interest rate or fees payable hereunder, unless a modification is provided for in this Agreement; (d) postpone any date fixed for any payment of principal of, or interest on, any Note or other amounts payable hereunder (other than those payable only to M&I in its capacity as Agent, which may be postponed by M&I unilaterally); (e) amend the definition of "Required Lenders"; (f) consent to the release of or discharge any Person liable for the performance of any Obligations of the Company hereunder or under any of the Related Documents; (g) amend any provision of this Agreement that requires the consent of all Lenders, or the consent of the Required Lenders; (h) amend this Section 8.10; (i) release any Lien on the Collateral unless otherwise permitted in this Agreement or the Related Documents incident to a sale of such Collateral; or (j) amend or waive any part of Sections 5, 6 or 7 of this Agreement.

8.11 Resignation or Removal of Agent; Successor Agent. The Agent may resign as such at any time upon at least 30 days' prior written notice to the Company and all Lenders. The Agent may be removed at any time by the Required Lenders upon at least 30 days' prior written notice by the Required Lenders to the Company and the Agent, but only: (a) for cause consisting of its willful misconduct; (b) following a declaration of insolvency of the Agent by appropriate regulators; or (c) the Agent's failure to take action directed by all the Lenders or the Required Lenders within ten (10) days after receipt of written notice, after the Lenders have agreed to indemnify the Agent provided for herein. If the Agent at any time shall resign or be removed, the Required Lenders, with the prior written approval of the Company (which approval shall not be unreasonably withheld, but shall not be required upon the occurrence and during the continuance of an Event of Default), may appoint another Lender as a successor Agent which shall thereupon become the Agent hereunder. If no successor Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent has given notice of resignation, then the retiring Agent may, with the prior written approval of the Company (which approval shall not be unreasonably withheld, and shall not be required upon the occurrence and during the continuance of an Event of Default) and on behalf of the Lenders, appoint a successor Agent, which shall be one of the Lenders. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall be entitled to receive from the retiring Agent such documents of transfer and such assignments as such successor Agent may reasonably request, and shall thereupon succeed to and become vested with all rights, powers, privileges and duties of the retiring Agent and the retiring Agent shall be discharged from its duties and obligations as Agent under this Agreement. The successor Agent shall be entitled to negotiate its own fee structure with the Company, but in any event shall be entitled to receive as compensation an amount not less than the amount the retiring Agent would have been entitled to receive.

#### SECTION 9 MISCELLANEOUS

9.1 Assignability; Successors. The provisions of this Agreement shall inure to the benefit of and be binding upon the permitted successors and assigns of the parties hereto. The Company's rights and liabilities under this Agreement and the Related Documents are not assignable in whole or in part without the prior written consent of the Required Lenders.

9.2 Survival. All agreements, covenants, representations and warranties made herein and in the Related Documents shall survive the execution and delivery of this Agreement and the Related Documents, the making of the Obligations and the termination of this Agreement.

9.3 Governing Law. This Agreement and the Related Documents shall be governed by the internal laws of the State of Wisconsin (regardless of such State's conflict of laws principles). The parties hereto acknowledge that this Agreement and the Related Documents were all negotiated with the assistance of counsel and, accordingly, such laws shall be applied without reference to any rules of construction regarding the draftsman hereof.

9.4 Counterparts; Headings. This Agreement may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together



constitute but one and the same agreement. The descriptive headings in this Agreement are inserted for convenience of reference only and shall not affect the construction of this Agreement. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the person or persons may require.

9.5 Entire Agreement; Amendments. This Agreement, the Exhibits and Schedules attached hereto, and the Related Documents contain the entire understanding of the parties with respect to the subject matter hereof, and supersede all other understandings, oral or written, with respect to the subject matter hereof. No amendment, modification, alteration, or waiver of the terms of this Agreement or consent required under the terms of this Agreement shall be effective unless made in a writing, executed by the Company, the Agent and/or the Lenders. Any such amendment, modification, alteration, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

9.6 Notices. All communications or notices required or permitted by this Agreement shall be in writing, and shall be deemed to have been given or made when delivered in hand, deposited in the mail, or sent by facsimile. Communications or notices shall be delivered personally or by certified or registered mail, postage prepaid, or by facsimile and addressed as follows, unless and until either of such parties notifies the other in accordance with this section of a change of address:

if to the Company: United Community Banks, Inc.  
63 Highway 515  
Blairsville, GA 30512  
Attn: Thomas C. Gilliland  
FAX: (706) 745-9046

with copies to: Kilpatrick Stockton LLP  
1100 Peachtree Street  
Suite 2800  
Atlanta, GA 30309  
Attn: Richard R. Cheatham  
FAX: (404) 541-3151

if to the Agent: M&I Marshall & Ilsley Bank  
770 North Water Street  
Milwaukee, WI 53202-3593  
Attn: Gregg Weyer  
FAX: (414) 765-7927

if to the Compass: Compass Bank  
15 South 20th Street  
Birmingham, AL 35233  
Attn: William Butler  
FAX: (205) 297-6563

with copies to: Michael Best & Friedrich LLP  
100 East Wisconsin, Suite 3300  
Milwaukee, WI 53202-4108  
Attn: K. Thor Lundgren  
FAX: (414) 277-0656

9.7 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

9.8 Further Assurances. The Company agrees to do such further acts and things, and to execute and deliver such additional conveyances, assignments, agreements and instruments, as the Agent and/or Lenders may at any time request in connection with the administration or enforcement of this Agreement or the Related Documents or in order better to assure and confirm unto the Agent and/or Lenders its rights, powers and remedies hereunder.

9.9 Conflicts and Ambiguities. In the event of any ambiguity or conflict as between the terms of this Agreement, the Related Documents or any other document executed and delivered pursuant to this Agreement, the terms of this Agreement shall control.

9.10 WAIVER OF JURY TRIAL. EACH PARTY HERETO KNOWINGLY, VOLUNTARILY AND WITHOUT COERCION, WAIVES ALL RIGHTS TO A TRIAL BY JURY OF ALL DISPUTES ARISING OUT OF OR IN RELATION TO (A) THIS AGREEMENT OR ANY RELATED DOCUMENT TO WHICH IT IS A PARTY, OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION THEREWITH, (B) ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT OR AND ANY RELATED DOCUMENT, OR (C) ANY ACT, CONDUCT OR OMISSION IN CONNECTION WITH THIS AGREEMENT, THE RELATED DOCUMENTS OR ANY RELATIONSHIP CREATED THEREBY, REGARDLESS OF THE TIME WHEN THE SAME MAY OCCUR, AND AGREES THAT ALL MATTERS RELATING THERETO AND ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

9.11 Inducements. All statements, promises or inducements made to any party hereto in connection with this Agreement and the Related Documents are set forth herein or therein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

UNITED COMMUNITY BANKS, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

M&I MARSHALL & ILSLEY BANK

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

COMPASS BANK

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

UNITED COMMUNITY BANKS, INC.  
CODE OF ETHICAL CONDUCT

The Chief Executive Officer (principal executive officer), Chief Financial Officer (principal financial officer), Controller (principal accounting officer), each Executive Vice President, each Senior Vice President and each Director of United Community Banks, Inc. (the "Company") must:

- Act honestly and ethically, avoiding actual or apparent conflicts of interest in personal and professional relationships.
- Promote full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission (the "SEC") and in other public communications made by the Company.
- Comply with applicable laws, rules, and regulations of federal, state, and local governments and other appropriate private and public regulatory agencies.
- Act in good faith and responsibly, with due care, competence, and diligence, without misrepresenting material facts.
- Respect the confidentiality of information acquired in the course of employment.
- Share knowledge and maintain skills necessary and relevant to the Company's needs.
- Proactively promote ethical and honest behavior within the workplace.
- Assure responsible use of and control of all assets, resources, and information of the Company.
- Promptly report to a member of the Company's Audit Committee any violations of this Code.

Those who violate the Code, or who fail to cooperate fully with any inquiries or investigations regarding possible violations of the Code, will be subject to disciplinary action, including possible termination.

The Board of Directors shall have the sole and absolute discretionary authority to approve any amendment to or waiver from this Code. Any amendment or waiver from this Code, including the grounds for such waiver, shall be promptly disclosed through a filing with the SEC on Form 8-K or the Company's internet website; provided, however, disclosure may only be made on the Company's internet website in lieu of a report on Form 8-K if the Company has disclosed in its most recent Form 10-K that it would disclose such events on the Company's internet website and provided the website address.

UNITED COMMUNITY BANKS, INC.  
CERTIFICATION TO COMPLY WITH THE  
CODE OF ETHICAL CONDUCT

In my role as \_\_\_\_\_ of United Community Banks, Inc. (the "Company"), I certify to you, the Board of Directors, that I will adhere to and advocate the Code of Ethical Conduct.

Date: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

EXHIBIT 21

Subsidiaries of United Community Banks, Inc.

Subsidiary -----	State of Organization -----
United Community Bank	Georgia
United Community Insurance Services, Inc.	Georgia
Brintech, Inc.	Florida
Union Holdings, Inc.	Nevada
Union Investments, Inc.	Nevada
United Community Mortgage Services, Inc.	Georgia
United Community Bank	North Carolina
Carolina Holdings, Inc.	Nevada
Carolina Investments, Inc.	Nevada
United Community Bank Tennessee	Tennessee
United Community Capital Trust	Delaware
United Community Capital Trust II	Delaware
United Community Statutory Trust I	Connecticut
Better Government Committee of United Community Banks, Inc.	Georgia

EXHIBIT 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated January 27, 2004, 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, 2002. We hereby consent to the incorporation by reference of said report in the Registration Statement of United Community Banks, Inc. on Forms S-8 (File No. 33-80885, effective December 27, 1995; File No. 333-70471, effective January 12, 1999; File No. 333-86876, effective April 24, 2002; and File No. 333-99849, effective date September 19, 2002) and on Forms S-4 (File No. 333-102663, effective date February 6, 2003 and File No. 333-103024, effective date February 24, 2003).

/s/ Porter Keadle Moore, LLP

Atlanta, Georgia  
March 8, 2004



EXHIBIT 31.1

I, Jimmy C. Tallent, President and Chief Executive Officer of United Community Banks, Inc. (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ JIMMY C. TALLENT  
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Jimmy C. Tallent  
President and Chief Executive Officer  
  
Date: March 8, 2004

EXHIBIT 31.2

I, Rex S. Schuette, Executive Vice President and Chief Financial Officer of United Community Banks, Inc. (the "registrant"), certify that:

1. I have reviewed this annual report on Form 10-K of the registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ REX S. SCHUETTE

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Rex S. Schuette  
Executive Vice President and  
Chief Financial Officer

Date: March 8, 2004

EXHIBIT 32

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

In connection with the Annual Report of United Community Banks, Inc. ("United") on Form 10-K for the period ending December 31, 2003 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jimmy C. Tallent, President and Chief Executive Officer of United, and I, Rex S. Schuette, Executive Vice President and Chief Financial Officer of United, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of United.

By: /s/ JIMMY C. TALLENT

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Jimmy C. Tallent  
President and Chief Executive Officer

By: /s/ REX S. SCHUETTE

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Rex S. Schuette  
Executive Vice President and  
Chief Financial Officer

Date: March 8, 2004

