

UNITED BANKSHARES INC/WV

Form 10-Q

November 05, 2008

Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For Quarter Ended September 30, 2008

Or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period \_\_\_\_\_

Commission File Number: 0-13322

United Bankshares, Inc.

(Exact name of registrant as specified in its charter)

West Virginia

55-0641179

(State or other jurisdiction of  
incorporation or organization)

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

300 United Center  
500 Virginia Street, East  
Charleston, West Virginia

25301

(Address of Principal Executive Offices)

Zip Code

Registrant's Telephone Number, including Area Code: (304) 424-8800

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
----------------------------	---	--	--

☒

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Common Stock, \$2.50 Par Value; **43,337,472** shares outstanding as of **October 31, 2008**.

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**TABLE OF CONTENTS**

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets (Unaudited) September 30, 2008 and December 31, 2007</u>	4
<u>Consolidated Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2008 and 2007</u>	5
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the Nine Months Ended September 30, 2008</u>	6
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2008 and 2007</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	50
<u>Item 4. Controls and Procedures</u>	53
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	54
<u>Item 1A. Risk Factors</u>	54
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
<u>Item 3. Defaults Upon Senior Securities</u>	55
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	55
<u>Item 5. Other Information</u>	55
<u>Item 6. Exhibits</u>	55
<u>Signatures</u>	56
<u>Exhibits Index</u>	57
<u>EX-31.1</u>	
<u>EX-31.2</u>	

EX-32.1

EX-32.2

**Table of Contents**

**PART I FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS (UNAUDITED)**

The September 30, 2008 and December 31, 2007, consolidated balance sheets of United Bankshares, Inc. and Subsidiaries ( United or the Company ), consolidated statements of income for the three and nine months ended September 30, 2008 and 2007, the related consolidated statement of changes in shareholders equity for the nine months ended September 30, 2008, the related condensed consolidated statements of cash flows for the nine months ended September 30, 2008 and 2007, and the notes to consolidated financial statements appear on the following pages.

3

---

**Table of Contents****CONSOLIDATED BALANCE SHEETS****UNITED BANKSHARES, INC. AND SUBSIDIARIES**

	<b>September 30 2008 (Unaudited)</b>	<b>December 31 2007 (Note 1)</b>
(Dollars in thousands, except par value)		
<b>Assets</b>		
Cash and due from banks	\$ 195,212	\$ 202,586
Interest-bearing deposits with other banks	14,671	10,559
Federal funds sold	14,595	17,506
Total cash and cash equivalents	224,478	230,651
Securities available for sale at estimated fair value (amortized cost-\$1,207,207 at September 30, 2008 and \$1,163,014 at December 31, 2007)	1,169,998	1,156,561
Securities held to maturity (estimated fair value-\$110,873 at September 30, 2008 and \$158,165 at December 31, 2007)	127,123	157,228
Other investment securities	80,556	80,975
Loans held for sale	718	1,270
Loans	5,918,262	5,800,561
Less: Unearned income	(6,644)	(7,077)
Loans net of unearned income	5,911,618	5,793,484
Less: Allowance for loan losses	(57,556)	(50,456)
Net loans	5,854,062	5,743,028
Bank premises and equipment	59,483	61,680
Goodwill	312,371	312,111
Accrued interest receivable	34,560	38,238
Other assets	232,204	212,997
<b>TOTAL ASSETS</b>	<b>\$ 8,095,553</b>	<b>\$ 7,994,739</b>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 922,484	\$ 913,427
Interest-bearing	4,581,987	4,436,323
Total deposits	5,504,471	5,349,750
Borrowings:		
Federal funds purchased	99,920	97,074
Securities sold under agreements to repurchase	572,007	499,989
Federal Home Loan Bank borrowings	887,616	1,012,272
Other short-term borrowings	2,300	5,000
Other long-term borrowings	185,254	195,890
Allowance for lending-related commitments	1,832	8,288

Edgar Filing: UNITED BANKSHARES INC/WV - Form 10-Q

Accrued expenses and other liabilities	69,044	65,277
<b>TOTAL LIABILITIES</b>	<b>7,322,444</b>	<b>7,233,540</b>
<b>Shareholders Equity</b>		
Common stock, \$2.50 par value; Authorized-100,000,000 shares; issued-44,320,832 at September 30, 2008 and December 31, 2007, including 1,036,905 and 1,086,106 shares in treasury at September 30, 2008 and December 31, 2007, respectively	110,802	110,802
Surplus	97,746	98,405
Retained earnings	633,222	602,185
Accumulated other comprehensive loss	(32,721)	(12,480)
Treasury stock, at cost	(35,940)	(37,713)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>773,109</b>	<b>761,199</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 8,095,553</b>	<b>\$ 7,994,739</b>

*See notes to consolidated unaudited financial statements.*

**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)****UNITED BANKSHARES, INC. AND SUBSIDIARIES**

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
(Dollars in thousands, except per share data)	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Interest income</b>				
Interest and fees on loans	\$ 88,822	\$ 99,240	\$ 272,088	\$ 267,111
Interest on federal funds sold and other short-term investments	140	876	632	1,980
Interest and dividends on securities:				
Taxable	15,104	13,832	45,125	40,446
Tax-exempt	2,694	3,361	8,880	10,096
Total interest income	106,760	117,309	326,725	319,633
<b>Interest expense</b>				
Interest on deposits	29,538	40,176	94,850	107,574
Interest on short-term borrowings	3,214	8,220	13,794	22,846
Interest on long-term borrowings	9,871	9,801	28,514	24,619
Total interest expense	42,623	58,197	137,158	155,039
Net interest income	64,137	59,112	189,567	164,594
Provision for credit losses	6,497	1,550	12,948	2,750
Net interest income after provision for credit losses	57,640	57,562	176,619	161,844
<b>Other income</b>				
Fees from trust and brokerage services	4,522	3,788	13,014	11,097
Fees from deposit services	10,251	9,087	29,336	24,134
Bankcard fees and merchant discounts	1,543	1,716	4,835	4,522
Other service charges, commissions, and fees	450	569	1,527	1,247
Income from bank-owned life insurance	1,622	1,179	3,943	3,965
Income from mortgage banking	93	124	342	447
Security (losses) gains	(9,167)	172	(8,258)	494
Gain on termination of interest rate swaps associated with prepayment of FHLB advances				787
Other income	1,016	691	3,384	2,074
Total other income	10,330	17,326	48,123	48,767

**Other expense**



Edgar Filing: UNITED BANKSHARES INC/WV - Form 10-Q

Salaries and employee benefits	18,766	17,559	56,735	47,207
Net occupancy expense	4,163	3,823	12,434	10,393
Equipment expense	1,790	2,059	6,072	4,867
Data processing expense	2,461	2,448	7,661	6,401
Bankcard processing expense	1,282	1,445	4,100	3,857
Prepayment penalty on FHLB advance				786
Other expense	13,176	11,688	37,471	29,502
Total other expense	41,638	39,022	124,473	103,013
Income before income taxes	26,332	35,866	100,269	107,598
Income taxes	6,740	10,063	29,834	32,876
Net income	\$ 19,592	\$ 25,803	\$ 70,435	\$ 74,722
Earnings per common share:				
Basic	\$ 0.45	\$ 0.60	\$ 1.63	\$ 1.80
Diluted	\$ 0.45	\$ 0.60	\$ 1.62	\$ 1.79
Dividends per common share	\$ 0.29	\$ 0.28	\$ 0.87	\$ 0.84
Average outstanding shares:				
Basic	43,276,962	42,731,909	43,262,926	41,458,388
Diluted	43,421,333	42,998,484	43,418,755	41,811,493
<i>See notes to consolidated unaudited financial statements.</i>				

**Table of Contents****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)**  
UNITED BANKSHARES, INC. AND SUBSIDIARIES

	Nine Months Ended September 30, 2008						
	Common Stock Par		Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
<i>(Dollars in thousands, except per share data)</i>	Shares	Value	Surplus	Earnings			
Balance at January 1, 2008	44,320,832	\$ 110,802	\$ 98,405	\$ 602,185	(\$12,480)	(\$37,713)	\$ 761,199
Cumulative effect of adopting EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split- Dollar Life Insurance Arrangements				(1,486)			(1,486)
Effect of changing pension plan measurement date pursuant to SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, net of tax				(270)			(270)
Comprehensive income:							
Net income				70,435			70,435
Other comprehensive income, net of tax:							
Unrealized loss on securities of \$25,327 net of reclassification adjustment for losses included in net income of \$5,368					(19,959)		(19,959)
Unrealized loss on cash flow hedge, net of tax of \$1,018					(1,890)		(1,890)
Accretion of the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio					138		138
Pension plan's amortization of transition asset, prior service cost, and actuarial loss, net of tax of \$6					8		8
Change in pension asset, net of tax of \$788					1,462		1,462
Total comprehensive income							50,194
Stock based compensation expense			410				410
Purchase of treasury stock (8,514 shares)						(208)	(208)
Distribution of treasury stock for deferred compensation plan (5,938 shares)						183	183
Cash dividends (\$0.87 per share)				(37,642)			(37,642)
Common stock options exercised (51,777 shares)			(1,069)			1,798	729
Balance at September 30, 2008	44,320,832	\$ 110,802	\$ 97,746	\$ 633,222	(\$32,721)	(\$35,940)	\$ 773,109

*See notes to consolidated unaudited financial statements*

6

---

**Table of Contents****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
UNITED BANKSHARES, INC. AND SUBSIDIARIES

	<b>Nine Months Ended September 30</b>	
<i>(Dollars in thousands)</i>	<b>2008</b>	<b>2007</b>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 84,222	\$ 67,820
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities and calls of securities held to maturity	21,286	56,287
Proceeds from sales of securities held to maturity		475
Purchases of securities held to maturity		(445)
Proceeds from sales of securities available for sale	1,230	9,587
Proceeds from maturities and calls of securities available for sale	466,361	493,245
Purchases of securities available for sale	(511,805)	(558,412)
Net purchases of bank premises and equipment	(1,460)	(2,107)
Net cash of acquired subsidiary		(35,778)
Net change in other investment securities	1,279	(8,978)
Net change in loans	(122,947)	(32,141)
NET CASH USED IN INVESTING ACTIVITIES	(146,056)	(78,267)
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	(37,628)	(34,335)
Excess tax benefits from stock-based compensation arrangements	322	796
Acquisition of treasury stock	(198)	(24,885)
Net proceeds from issuance of trust preferred securities		82,475
Proceeds from exercise of stock options	670	2,416
Proceeds from issuance of long-term Federal Home Loan Bank borrowings	225,000	333,900
Repayment of long-term Federal Home Loan Bank borrowings	(60,656)	(234,127)
Redemption of debt related to trust preferred securities	(10,310)	
Distribution of treasury stock for deferred compensation plan	183	59
Changes in:		
Deposits	155,114	(198,834)
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	(216,836)	28,430
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	55,661	(44,105)
Decrease in cash and cash equivalents	(6,173)	(54,552)
Cash and cash equivalents at beginning of year	230,651	259,013
Cash and cash equivalents at end of period	\$ 224,478	\$ 204,461

*See notes to consolidated unaudited financial statements.*

7

---

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**1. GENERAL**

The accompanying unaudited consolidated interim financial statements of United Bankshares, Inc. and Subsidiaries ( United ) have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not contain all of the information and footnotes required by accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements presented as of September 30, 2008 and 2007 and for the three-month and nine-month periods then ended have not been audited. The consolidated balance sheet as of December 31, 2007 has been extracted from the audited financial statements included in United's 2007 Annual Report to Shareholders. The accounting and reporting policies followed in the presentation of these financial statements are consistent with those applied in the preparation of the 2007 Annual Report of United on Form 10-K. In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim periods have been made. Such adjustments are of a normal and recurring nature. The accompanying consolidated interim financial statements include the accounts of United and its wholly owned subsidiaries. United considers all of its principal business activities to be bank related. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Dollars are in thousands, except per share and share data or unless otherwise noted.

**New Accounting Standards**

In March 2008, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 161 (SFAS 161),

Disclosures about Derivative Instruments and Hedging Activities which amends FASB Statement No. 133. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. United is currently assessing the impact this statement will have on its consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 141-revised 2007 (SFAS 141R), Business Combinations which amends FASB Statement 141 (SFAS 141). SFAS 141R aims to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. Early adoption is not permitted.

In December 2007, the FASB issued FASB Statement No. 160, Noncontrolling Interests in Consolidated

**Table of Contents**

Financial Statements (SFAS 160). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Based on management's preliminary analysis, the adoption of SFAS 160 is not expected to have a significant impact on United's consolidated financial statements.

In September 2006, the FASB issued EITF Issue No. 06-4 (EITF 06-4), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*, which will require employers with endorsement split-dollar arrangements that provide a post-retirement life insurance benefit to record an obligation for this benefit and recognize an ongoing expense. EITF 06-4 applies for fiscal years beginning after December 15, 2007, with an earlier adoption permitted. United adopted EITF 06-4 on January 1, 2008, as required and a cumulative effect adjustment was recorded in retained earnings.

In March 2007, the Emerging Issues Task Force (EITF) of the FASB ratified EITF Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements*. EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 was effective for fiscal years beginning after December 31, 2007. United adopted EITF 06-10 as of January 1, 2008, as required. The adoption of this standard did not have an impact on United's financial statements since United does not have any collateral assignment split-dollar life insurance agreements.

In February 2007, the FASB issued Statement No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities* which provides companies with an option to report selected financial assets and liabilities at fair value. With this Standard, the FASB expects to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate the comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Statement does not eliminate disclosure requirements included in accounting standards. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. United decided to not report any existing financial assets or liabilities at fair value that are not already reported, thus the adoption of this statement did not have a material impact on United's consolidated financial statements.

In September 2006, the FASB published Statement No. 158 (SFAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 requires employers to recognize in their statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status. United is also required to recognize fluctuations in the funded status in the year in which the changes occur through comprehensive income. United adopted the recognition and disclosure provisions of SFAS 158 on December 31, 2006. The effect of adopting SFAS 158 on United's financial condition at December 31, 2006 has been included in the accompanying consolidated financial statements. SFAS 158 also requires employers to measure the funded status of a plan as of the end of the employers' fiscal year. On January 1, 2008, United changed the

**Table of Contents**

measurement date for its defined pension plan from September 30 to December 31 for its 2008 financial statements as required. As a result, United recorded a cumulative effect adjustment of \$270 to retained earnings. See Note 14 for additional information regarding United's adoption of SFAS 158.

In September 2006, the FASB also issued Statement No. 157 (SFAS 157), Fair Value Measurements which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. United adopted SFAS 157 on January 1, 2008. The adoption of this statement did not have a material impact on United's consolidated financial statements. See Note 12 for additional information regarding United's adoption of SFAS 157.

**2. MERGERS & ACQUISITIONS**

On July 14, 2007, United acquired 100% of the outstanding common stock of Premier Community Bankshares, Inc. (Premier) of Winchester, Virginia. The results of operations of Premier, which are not significant, are included in the consolidated results of operations from the date of acquisition. Because the results of operations of Premier are not significant, pro forma information is not provided. The acquisition of Premier expanded United's presence in the rapidly growing and economically attractive Metro DC area and afforded United the opportunity to enter new Virginia markets in the Winchester, Harrisonburg and Charlottesville areas.

The purchase price was allocated to the identifiable tangible and intangible assets resulting in additions to goodwill and core deposit intangibles of approximately \$148 million and \$11 million, respectively.

As a result of the merger, United assumed approximately \$2.5 million of liabilities to provide severance benefits to terminated employees of Premier. A balance of \$811 thousand remains as of September 30, 2008 for the assumed liabilities to provide severance benefits to terminated employees of Premier.

Statement of Position 03-3 (SOP 03-3), Accounting for Certain Loans or Debt Securities Acquired in a Transfer requires acquired impaired loans for which it is probable that the investor will be unable to collect all contractually required payments receivable to be recorded at the present value of amounts expected to be received and prohibits carrying over or creating valuation allowances in the initial accounting for these loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of SOP 03-3. The impact of recording the impaired loans acquired from Premier on July 14, 2007 at fair value was not significant. Additional disclosures required by SOP 03-3 are not provided because of the insignificant impact.



**Table of Contents****3. INVESTMENT SECURITIES**

The amortized cost and estimated fair values of securities available for sale are summarized below:

		<b>September 30, 2008</b>		
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Treasury securities and obligations of				
U.S. Government corporations and agencies	\$ 42,583	\$ 98	\$ 1	\$ 42,680
State and political subdivisions	113,990	1,004	2,038	112,956
Mortgage-backed securities	890,523	4,085	12,757	881,851
Marketable equity securities	6,691		898	5,793
Corporate securities	153,420		26,702	126,718
Total	\$1,207,207	\$5,187	\$42,396	\$1,169,998

		<b>December 31, 2007</b>		
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Treasury securities and obligations of				
U.S. Government corporations and agencies	\$ 42,689	\$ 188	\$ 8	\$ 42,869
State and political subdivisions	117,713	2,349	53	120,009
Mortgage-backed securities	846,037	4,173	4,105	846,105
Marketable equity securities	6,752	85	521	6,316
Corporate securities	149,823	2,572	11,133	141,262
Total	\$1,163,014	\$9,367	\$15,820	\$1,156,561

Provided below is a summary of securities available-for-sale which were in an unrealized loss position at September 30, 2008 and December 31, 2007:

	<b>Less than 12 months</b>		<b>12 months or longer</b>	
	<b>Market Value</b>	<b>Unrealized Losses</b>	<b>Market Value</b>	<b>Unrealized Losses</b>
<b><u>September 30, 2008</u></b>				
Treasuries and agencies	\$ 9,998	\$ 1		
State and political	56,784	2,038		
Mortgage-backed	478,677	11,871	\$ 25,094	\$ 886
Marketable equity securities	1,365	492	653	406
Corporate securities	72,872	12,114	53,846	14,588
Total	\$ 619,696	\$ 26,516	\$ 79,593	\$ 15,880

**Table of Contents**

	<b>Less than 12 months</b>		<b>12 months or longer</b>	
	<b>Market Value</b>	<b>Unrealized Losses</b>	<b>Market Value</b>	<b>Unrealized Losses</b>
<b><u>December 31, 2007</u></b>				
Treasuries and agencies			\$ 2,989	\$ 8
State and political	\$ 1,815	\$ 5	9,776	48
Mortgage-backed	58,244	594	407,397	3,511
Marketable equity securities	1,338	422	101	99
Corporate securities	85,849	10,132	14,504	1,001
Total	\$ 147,246	\$ 11,153	\$ 434,767	\$ 4,667

Gross unrealized losses on available for sale securities were \$42,396 at September 30, 2008. Securities in a continuous unrealized loss position for twelve months or more at September 30, 2008 consisted primarily of corporate securities. These corporate securities were mainly investment grade single issuer or pooled trust preferred securities of financial institutions. The Company had no exposure to real estate investment trusts (REITS) in its investment portfolio. The unrealized loss on the mortgage-backed securities portfolio relates primarily to AAA securities issued by FHMLC, FNMA, GNMA, and various other private label issuers. During the third quarter of 2008, United recognized a noncash before-tax other-than-temporary impairment charge of \$9.00 million on a corporate debt holding. Management does not believe any other individual security with an unrealized loss as of September 30, 2008 is other than temporarily impaired. United believes the decline in value is attributable to tight market liquidity, distressed sales, and changes in market interest rates, not the credit quality of the issuers. United has the intent and the ability to hold these securities until such time as the value recovers or the securities mature. However, United acknowledges that any impaired securities may be sold in future periods in response to significant, unanticipated changes in asset/liability management decisions, unanticipated future market movements or business plan changes.

At September 30, 2008, United's mortgage related available for sale securities portfolio had an amortized cost of \$890,523. Approximately \$676 million, or 76% of these securities were Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) mortgage backed securities (MBS) and collateralized mortgage obligations (CMOs). The remainder of the portfolio consisted of approximately \$209 million in whole-loan CMOs and approximately \$6 million in Government National Mortgage Association (GNMA) securities. The whole-loan CMO portfolio consisted entirely of senior class certificates, with approximately 74% of the loans originated prior to 2006. The securities collateralized by Alt-A loans totaled approximately \$23 million at September 30, 2008, 90% of which represented the super-senior tranches. United did not invest in sub-prime whole loan securities.

The amortized cost and estimated fair value of securities available for sale at September 30, 2008 and December 31, 2007 by contractual maturity are shown on the following page. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations without penalties.

**Table of Contents**

	<b>September 30, 2008</b>		<b>December 31, 2007</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ 41,534	\$ 41,558	\$ 40,627	\$ 40,668
Due after one year through five years	64,402	64,822	82,214	82,315
Due after five years through ten years	200,805	199,701	195,981	196,808
Due after ten years	893,775	858,124	837,440	830,454
Marketable equity securities	6,691	5,793	6,752	6,316
Total	\$1,207,207	\$1,169,998	\$1,163,014	\$1,156,561

The amortized cost and estimated fair values of securities held to maturity are summarized as follows:

	<b>September 30, 2008</b>			<b>Estimated</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 11,485	\$1,415		\$ 12,900
State and political subdivisions	40,163	504	\$ 396	40,271
Mortgage-backed securities	139	7		146
Corporate securities	75,336	12	17,792	57,556
Total	\$127,123	\$1,938	\$18,188	\$110,873

	<b>December 31, 2007</b>			<b>Estimated</b>
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 11,572	\$1,316		\$ 12,888
State and political subdivisions	59,466	1,043	\$ 4	60,505
Mortgage-backed securities	165	10		175
Corporate securities	86,025	564	1,992	84,597
Total	\$157,228	\$2,933	\$1,996	\$158,165

The amortized cost and estimated fair value of debt securities held to maturity at September 30, 2008 and December 31, 2007 by contractual maturity are shown on the following page. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations without penalties.

**Table of Contents**

	<b>September 30, 2008</b>		<b>December 31, 2007</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$ 17,052	\$ 14,572	\$ 8,624	\$ 8,652
Due after one year through five years	12,068	11,834	35,964	36,623
Due after five years through ten years	19,422	20,189	26,568	27,495
Due after ten years	78,581	64,278	86,072	85,395
Total	\$127,123	\$110,873	\$157,228	\$158,165

The carrying value of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law, approximated \$1,149,057 and \$1,002,234 at September 30, 2008 and December 31, 2007, respectively.

**4. LOANS**

Major classifications of loans are as follows:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Commercial, financial and agricultural	\$ 1,189,387	\$ 1,210,049
Real estate:		
Single-family residential	1,896,962	1,882,498
Commercial	1,644,143	1,507,541
Construction	605,176	601,323
Other	246,173	239,907
Installment	336,421	359,243
Total gross loans	\$ 5,918,262	\$ 5,800,561

The table above does not include loans held for sale of \$718 and \$1,270 at September 30, 2008 and December 31, 2007, respectively. Loans held for sale consist of single-family residential real estate loans originated for sale in the secondary market.

United's subsidiary banks have made loans, in the normal course of business, to the directors and officers of United and its subsidiaries, and to their affiliates. Such related party loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and did not involve more than normal risk of collectibility. The aggregate dollar amount of these loans was \$133,870 and \$126,432 at September 30, 2008 and December 31, 2007, respectively.

**5. ALLOWANCE FOR CREDIT LOSSES**

United maintains an allowance for loan losses and an allowance for lending-related commitments such as unfunded loan commitments and letters of credit. The allowance for lending-related commitments of \$1,832 and \$8,288 at September 30, 2008 and December 31, 2007, respectively, is separately classified as a liability on the balance sheet. The methodology for calculation of the unfunded commitments liability was changed to be more consistent with the historical utilization of unfunded commitments which resulted in a decrease of

**Table of Contents**

\$6,456 from year-end 2007. The combined allowances for loan losses and lending-related commitments are referred to as the allowance for credit losses.

The allowance for credit losses is management's estimate of the probable credit losses inherent in the lending portfolio. Management's evaluation of the adequacy of the allowance for credit losses and the appropriate provision for credit losses is based upon a quarterly evaluation of the loan portfolio and lending-related commitments. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of future cash flows, value of collateral, losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change. The allowance allocated to specific credits and loan pools grouped by similar risk characteristics is reviewed on a quarterly basis and adjusted as necessary based upon subsequent changes in circumstances. In determining the components of the allowance for credit losses, management considers the risk arising in part from, but not limited to, charge-off and delinquency trends, current economic and business conditions, lending policies and procedures, the size and risk characteristics of the loan portfolio, concentrations of credit, and other various factors. Loans deemed to be uncollectible are charged against the allowance for credit losses, while recoveries of previously charged-off amounts are credited to the allowance for credit losses. Credit expenses related to the allowance for credit losses and the allowance for lending-related commitments are reported in the provision for credit losses in the income statement.

A progression of the allowance for credit losses, which includes the allowance for credit losses and the allowance for lending-related commitments, for the periods presented is summarized as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 59,161	\$ 51,220	\$ 58,744	\$ 52,371
Allowance of purchased subsidiaries		7,648		7,648
Provision for credit losses	6,497	1,550	12,948	2,750
	65,658	60,418	71,692	62,769
Loans charged-off	(6,529)	(2,104)	(13,046)	(4,952)
Less: Recoveries	259	303	742	800
Net Charge-offs	(6,270)	(1,801)	(12,304)	(4,152)
Balance at end of period	\$ 59,388	\$ 58,617	\$ 59,388	\$ 58,617

**6. RISK ELEMENTS**

Nonperforming assets include loans on which no interest is currently being accrued, principal or interest has been in default for a period of 90 days or more and for which the terms have been modified due to deterioration in the financial position of the borrower. Loans are designated as nonaccrual when, in the opinion of management, the collection of principal or interest is doubtful. This generally occurs when a loan becomes 90 days past due as to principal or interest unless the loan is both well secured and in the process of collection. When interest accruals are discontinued, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for credit losses. Other real estate owned consists of property acquired through foreclosure and is stated at the lower of cost or fair value.

**Table of Contents**

less estimated selling costs.

Nonperforming assets are summarized as follows:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Nonaccrual loans	\$ 36,065	\$ 14,115
Loans past due 90 days or more and still accruing interest	12,963	14,210
 Total nonperforming loans	 49,028	 28,325
 Other real estate owned	 13,340	 6,365
 Total nonperforming assets	 \$ 62,368	 \$ 34,690

See Management's Discussion and Analysis of Financial Condition and Results of Operations for a detailed discussion of the change in nonperforming assets since year-end 2007.

Loans are designated as impaired when, in the opinion of management, the collection of principal and interest in accordance with the contractual terms of the loan agreement is not probable. At September 30, 2008, the recorded investment in loans that were considered to be impaired was \$61,156 (of which \$36,065 were on a nonaccrual basis). Included in this amount is \$27,587 of impaired loans for which the related allowance for credit losses is \$4,960 and \$33,569 of impaired loans that do not have an allowance for credit losses due to management's estimate that the fair value of the underlying collateral of these loans is sufficient for full repayment of the loan and interest. At December 31, 2007, the recorded investment in loans that were considered to be impaired was \$30,952 (of which \$14,115 were on a nonaccrual basis). Included in this amount were \$24,097 of impaired loans for which the related allowance for credit losses was \$3,615, and \$6,855 of impaired loans that did not have an allowance for credit losses. The average recorded investment in impaired loans during the nine months ended September 30, 2008 and for the year ended December 31, 2007 was approximately \$47,332 and \$28,908, respectively.

United recognized interest income on impaired loans of approximately \$609 and \$1,351 for the quarter and nine months ended September 30, 2008, respectively, and \$481 and \$1,151 for the quarter and nine months ended September 30, 2007, respectively. Substantially all of the interest income was recognized using the accrual method of income recognition. The amount of interest income that would have been recorded under the original terms for the above loans and nonaccrual loans was \$1,167 and \$2,798 for the quarter and nine months ended September 30, 2008, respectively, and \$496 and \$1,464 for the quarter and nine months ended September 30, 2007, respectively.

**Table of Contents****7. INTANGIBLE ASSETS**

The following is a summary of intangible assets subject to amortization and those not subject to amortization:

	<b>As of September 30, 2008</b>		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit intangible assets	\$ 30,995	\$ (22,864)	\$ 8,131
Goodwill not subject to amortization			\$ 312,371

	<b>As of December 31, 2007</b>		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit intangible assets	\$ 30,995	\$ (20,117)	\$ 10,878
Goodwill not subject to amortization			\$ 312,111

United incurred amortization expense of \$789 and \$2,747 for the quarter and nine months ended September 30, 2008, respectively, and \$1,000 and \$1,790 for the quarter and nine months ended September 30, 2007, respectively, related to intangible assets. The table presented below sets forth the anticipated amortization expense for intangible assets for each of the next five years:

<b>Year</b>	<b>Amount</b>
2008	\$3,494
2009	2,561
2010	1,884
2011	1,362
2012 and thereafter	1,577

**8. SHORT-TERM BORROWINGS**

Federal funds purchased and securities sold under agreements to repurchase are a significant source of funds for the Company. United has various unused lines of credit available from certain of its correspondent banks in the aggregate amount of \$300,000. These lines of credit, which bear interest at prevailing market rates, permit United to borrow funds in the overnight market, and are renewable annually subject to certain conditions. At September 30, 2008, federal funds purchased were \$99,920 while securities sold under agreements to repurchase were \$572,007.

United has available funds of \$70,000 with two unrelated financial institutions to provide for general liquidity needs. Both are unsecured revolving lines of credit. One has a one-year renewable term while the other line of credit has a two-year renewable term. Each line of credit carries an indexed floating rate of interest. At September 30, 2008, United had no outstanding balance under these lines of credit.

United Bank (VA) participates in the Treasury Investment Program, which is essentially the U.S. Treasury's

**Table of Contents**

savings account for companies depositing employment and other tax payments. The bank retains the funds in an open-ended interest-bearing note until the Treasury withdraws or calls the funds. A maximum note balance is established and that amount must be collateralized at all times. All tax deposits or a portion of the tax deposits up to the maximum balance are generally available as a source of short-term investment funding. As of September 30, 2008, United Bank (VA) had an outstanding balance of \$2,300 and had additional funding available of \$2,700.

**9. LONG-TERM BORROWINGS**

United's subsidiary banks are members of the Federal Home Loan Bank (FHLB). Membership in the FHLB makes available short-term and long-term borrowings from collateralized advances. All FHLB borrowings are collateralized by a mix of single-family residential mortgage loans, commercial loans and investment securities. At September 30, 2008, United had an unused borrowing amount of \$1,197,682 available subject to delivery of collateral after certain trigger points.

Advances may be called by the FHLB or redeemed by United based on predefined factors and penalties.

At September 30, 2008, \$887,616 of FHLB advances with a weighted-average interest rate of 3.26% is scheduled to mature within the next eleven years.

The scheduled maturities of borrowings are as follows:

<b>Year</b>	<b>Amount</b>
2008	\$ 145,000
2009	155,000
2010	384,685
2011	60,000
2012 and thereafter	142,931
 Total	 \$ 887,616

United has a total of ten statutory business trusts that were formed for the purpose of issuing or participating in pools of trust preferred capital securities (Capital Securities) with the proceeds invested in junior subordinated debt securities (Debentures) of United. The Debentures, which are subordinate and junior in right of payment to all present and future senior indebtedness and certain other financial obligations of United, are the sole assets of the trusts and United's payment under the Debentures is the sole source of revenue for the trusts. At September 30, 2008 and December 31, 2007, the outstanding balances of the Debentures were \$185,254 and \$195,890 respectively, and were included in the category of long-term debt on the Consolidated Balance Sheets entitled Other long-term borrowings. The Capital Securities are not included as a component of shareholders' equity in the Consolidated Balance Sheets. United fully and unconditionally guarantees each individual trust's obligations under the Capital Securities. In January of 2008, United redeemed the Capital Securities of United Statutory Trust II. As part of the redemption, United retired the \$10,310 principal amount of 8.59% Junior Subordinated Debentures issued by United Statutory Trust II.



## **Table of Contents**

Under the provisions of the subordinated debt, United has the right to defer payment of interest on the subordinated debt at any time, or from time to time, for periods not exceeding five years. If interest payments on the subordinated debt are deferred, the dividends on the Capital Securities are also deferred. Interest on the subordinated debt is cumulative.

### **10. COMMITMENTS AND CONTINGENT LIABILITIES**

United is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to alter its own exposure to fluctuations in interest rates. These financial instruments include loan commitments, standby letters of credit, and commercial letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

United's maximum exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for the loan commitments and standby letters of credit is the contractual or notional amount of those instruments. United uses the same policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Collateral may be obtained, if deemed necessary, based on management's credit evaluation of the counterparty.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily, and historically do not, represent future cash requirements. The amount of collateral obtained, if deemed necessary upon the extension of credit, is based on management's credit evaluation of the counterparty. United had approximately \$1,963,781 and \$1,945,818 of loan commitments outstanding as of September 30, 2008 and December 31, 2007, respectively, the majority of which expire within one year.

Commercial and standby letters of credit are agreements used by United's customers as a means of improving their credit standing in their dealings with others. Under these agreements, United guarantees certain financial commitments of its customers. A commercial letter of credit is issued specifically to facilitate trade or commerce. Typically, under the terms of a commercial letter of credit, a commitment is drawn upon when the underlying transaction is consummated as intended between the customer and a third party. United has issued commercial letters of credit of \$3,148 and \$1,580 as of September 30, 2008 and December 31, 2007, respectively. A standby letter of credit is generally contingent upon the failure of a customer to perform according to the terms of an underlying contract with a third party. United has issued standby letters of credit of \$131,903 and \$144,314 as of September 30, 2008 and December 31, 2007, respectively. In accordance with FIN 45, United has determined that substantially all of its letters of credit are renewed on an annual basis and that the fair value of these letters of credit is immaterial.

### **11. DERIVATIVE FINANCIAL INSTRUMENTS**

United uses derivative instruments to aid against adverse prices or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives may consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. United also executes

**Table of Contents**

derivative instruments with its commercial banking customers to facilitate its risk management strategies.

United accounts for its derivative financial instruments in accordance with FASB Statement No. 133 (SFAS No. 133),

Accounting for Derivative Instruments and Hedging Activities , as amended. SFAS No. 133 requires all derivative instruments to be carried at fair value on the balance sheet. United usually designates derivative instruments used to manage interest rate risk as hedge relationships with certain assets, liabilities or cash flows being hedged. Certain derivatives used for interest rate risk management are not designated in a SFAS No. 133 relationship.

Under the provisions of SFAS No. 133, United has both fair value hedges and cash flow hedges as of September 30, 2008. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivative instruments designated in hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For a fair value hedge, the fair value of the interest rate swap is recognized on the balance sheet as either a freestanding asset or liability with a corresponding adjustment to the hedged financial instrument. Subsequent adjustments due to changes in the fair value of a derivative that qualifies as a fair value hedge are offset in current period earnings. For a cash flow hedge, the fair value of the interest rate swap is recognized on the balance sheet as either a freestanding asset or liability with a corresponding adjustment to other comprehensive income within shareholders' equity, net of tax. Subsequent adjustments due to changes in the fair value of a derivative that qualifies as a cash flow hedge are offset to other comprehensive income, net of tax. The portion of a hedge that is ineffective is recognized immediately in earnings.

At inception of a hedge relationship, United formally documents the hedged item, the particular risk management objective, the nature of the risk being hedged, the derivative being used, how effectiveness of the hedge will be assessed and how the ineffectiveness of the hedge will be measured. United also assesses hedge effectiveness at inception and on an ongoing basis using regression analysis. Hedge ineffectiveness is measured by using the change in fair value method. The change in fair value method compares the change in the fair value of the hedging derivative to the change in the fair value of the hedged exposure, attributable to changes in the benchmark rate. The portion of a hedge that is ineffective is recognized immediately in earnings. Prior to January 1, 2006, United used the shortcut method for interest rate swaps that met the criteria as defined under SFAS No. 133. Effective January 1, 2006, United adopted an internal policy of accounting for all new derivative instruments entered thereafter whereby the shortcut method would no longer be used.

For derivatives that are not designated in a hedge relationship, changes in the fair value of the derivatives are recognized in earnings in the same period as the change in the fair value.

The tables on the following page set forth certain information regarding the interest rate derivatives portfolio used for interest-rate risk management purposes and designated as accounting hedges under SFAS 133 at September 30, 2008.

Table of Contents

**Derivative Classifications and Hedging Relationships**  
**September 30, 2008**

	<b>Notional Amount</b>	<b>Derivative Asset</b>	<b>Liability</b>
Derivatives Designated as Fair Value Hedges:			
Hedging Commercial Loans	\$ 14,500		\$ 729
<b>Total Derivatives Designated as Fair Value Hedges:</b>	<b>\$ 14,500</b>		<b>\$ 729</b>
Derivatives Designated as Cash Flow Hedges:			
Hedging FHLB Borrowings	\$ 234,685		\$ 2,251
<b>Total Derivatives Designated as Cash Flow Hedges:</b>	<b>\$ 234,685</b>		<b>\$ 2,251</b>
<b>Total Derivatives Used in Interest Rate Risk Management and Designated in SFAS 133 Relationships:</b>	<b>\$ 249,185</b>		<b>\$ 2,980</b>

**Derivative Instruments**  
**September 30, 2008**

	<b>Notional Amount</b>	<b>Average Receive Rate</b>	<b>Average Pay Rate</b>	<b>Estimated Fair Value</b>
<b>Fair Value Hedges:</b>				
Pay Fixed Swap (Commercial Loans)	\$ 14,500		6.27%	\$ (729)
<b>Total Derivatives Used in Fair Value Hedges</b>	<b>\$ 14,500</b>			<b>\$ (729)</b>
<b>Cash Flow Hedges:</b>				
Pay Fixed Swap (FHLB Borrowing)	\$ 234,685		3.79%	\$ (2,251)
<b>Total Derivatives Used in Cash Flow Hedges</b>	<b>\$ 234,685</b>			<b>\$ (2,251)</b>
<b>Total Derivatives Used for Interest Rate Risk Management and Designated in SFAS 133 Relationships</b>	<b>\$ 249,185</b>			<b>\$ (2,980)</b>

The derivative portfolio also includes derivative financial instruments not included in hedge relationships. These derivatives consist of interest rate swaps used for interest rate management purposes and derivatives executed with commercial banking customers to facilitate their interest rate management strategies. Gains and losses on other derivative financial instruments are included in noninterest income and noninterest expense, respectively.



**Table of Contents**

A summary of derivative financial instruments not in hedge relationships by type of activity is as follows:

	<b>Other Derivative Instruments September 30, 2008</b>	
	<b>Net Derivative Asset (Liability)</b>	<b>Net Gains (Losses)</b>
<b>Other Derivative Instruments:</b>		
Interest Rate Risk Management	\$ (1,270)	\$ (1,270)
Customer Risk Management	1,270	1,270
<b>Total Other Derivative Instruments</b>	<b>\$</b>	<b>\$</b>

**12. FAIR VALUE MEASUREMENTS**

United adopted SFAS No. 157, Fair Value Measurements (SFAS 157), on January 1, 2008 to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. SFAS 157 clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

In February of 2008, the FASB issued Staff Position No. 157-2 (FSP 157-2) which delayed the effective date of SFAS 157 for certain nonfinancial assets and nonfinancial liabilities except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-2 defers the effective date of SFAS 157 for such nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Thus, United has only partially applied SFAS 157. Those items affected by FSP 157-2 include other real estate owned (OREO), goodwill and core deposit intangibles.

In October of 2008, the FASB issued Staff Position No. 157-3 (FSP 157-3) to clarify the application of SFAS 157 in a market that is not active and to provide key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective upon issuance, including prior periods for which financials statements were not issued.

SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect United's market assumptions. The three levels of the fair value hierarchy under SFAS 157 based on these two types of inputs are as follows:

- Level 1 Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.
- Level 3 Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

**Table of Contents**

When determining the fair value measurements for assets and liabilities, United looks to active and observable markets to price identical assets or liabilities whenever possible and classifies such items in Level 1. When identical assets and liabilities are not traded in active markets, United looks to market observable data for similar assets and liabilities and classifies such items as Level 2. Nevertheless, certain assets and liabilities are not actively traded in observable markets and United must use alternative valuation techniques using unobservable inputs to determine a fair value and classifies such items as Level 3. The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement.

The following describes the valuation techniques used by United to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements.

**Securities available for sale:** Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2). Prices obtained from third party vendors that do not reflect forced liquidation or distressed sales are not adjusted by management. Any securities available for sale not valued based upon the methods above are considered Level 3.

**Derivatives:** United utilizes interest rate swaps in order to hedge exposure to interest rate risk and variability of cash flows associated to changes in the underlying interest rate of the hedged item. United utilizes third-party vendors for derivative valuation purposes. These vendors determine the appropriate fair value based on a net present value calculation of the cash flows related to the interest rate swaps using primarily observable market inputs such as interest rate yield curves (Level 2). Valuation adjustments to derivative fair values for liquidity and credit risk are also taken into consideration, as well as the likelihood of default by United and derivative counterparties, the net counterparty exposure and the remaining maturities of the positions. Values obtained from third party vendors are not adjusted by management.

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2008:

Description	Balance as of September 30, 2008	Fair Value Measurements at September 30, 2008 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities	\$ 1,169,998	\$ 8,329	\$ 1,045,150	\$ 116,519
Derivative financial assets	1,270		1,270	
Liabilities				
Derivative financial liabilities	4,250		4,250	
	23			

**Table of Contents**

The following table presents additional information about financial assets and liabilities measured at fair value at September 30, 2008 on a recurring basis and for which United has utilized Level 3 inputs to determine fair value:

	<b>Available-for-sale securities</b>
Beginning Balance at January 1, 2008	\$ 5,000
Total gains or losses (realized/unrealized):	
Included in earnings (or changes in net assets)	
Included in other comprehensive income	(1,068)
Purchases, issuances, and settlements	
Transfers in and/or out of Level 3	112,587
Ending Balance at September 30, 2008	\$ 116,519

The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at reporting date

At September 30, 2008, United changed its valuation technique for pooled trust preferred holdings available-for-sale. Previously, United relied on prices compiled by third party vendors using observable market data (Level 2) to determine the values of these securities. However, SFAS 157 assumes that fair values of financial assets are determined in an orderly transaction and not a forced liquidation or distressed sale at the measurement date. Based on financial market conditions at September 30, 2008, United felt that the fair values obtained from third party vendors reflected forced liquidation or distressed sales for these trust preferred securities. Therefore, United estimated fair value based on a discounted cash flow methodology using appropriately adjusted discount rates reflecting nonperformance and liquidity risks. The change in the valuation technique for these trust preferred securities resulted in a transfer of \$112,587 into Level 3 financial assets.

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by United to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements.

**Loans held for sale:** Loans held for sale are carried at the lower of cost or market value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, United records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the quarter ended September 30, 2008. Gains and losses on the sale of loans are recorded within income from mortgage banking on the Consolidated

**Table of Contents**

## Statements of Income.

**Impaired Loans:** Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for credit losses expense on the Consolidated Statements of Income.

The following table summarizes United's financial assets that were measured at fair value on a nonrecurring basis during the period.

Description	Carrying value at September 30, 2008				
	Balance as of September 30, 2008	Quoted Prices in Active Markets for	Significant Other	Significant	YTD Losses
		Identical	Observable	Unobservable	
		Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	
Assets					
Impaired Loans	\$ 27,587		\$ 3,843	\$ 23,744	\$ 863

**13. STOCK BASED COMPENSATION**

On May 15, 2006, United's shareholders approved the 2006 Stock Option Plan. A total of 1,500,000 shares of United's authorized but unissued common stock are allocated for the 2006 Stock Option Plan. Each plan year, 400,000 options will be available for award to eligible employees; however, not all 400,000 options are required to be awarded in that year. All options granted under the 2006 Stock Option Plan will be non-statutory stock options (NSOs), i.e. options that do not qualify as incentive stock options under Section 422 of the Internal Revenue Code. Subject to certain change in control provisions, recipients of options will be fully vested in and permitted to exercise options granted under the 2006 Stock Option Plan three years from the grant date. As of September 30, 2008, 254,550 shares have been granted under the 2006 Stock Option Plan resulting in the recognition of compensation expense of \$410 thousand for the first nine months of 2008 which was included in salaries and employee benefits expense in the Consolidated Statement of Income. A



**Table of Contents**

Form S-8 was filed on October 25, 2006 with the Securities and Exchange Commission to register all the shares available for the 2006 Stock Option Plan.

United currently has options outstanding from various option plans other than the 2006 Stock Option Plan (the Prior Plans ); however, no common shares of United stock are available for grants under the Prior Plans as these plans have expired. Awards outstanding under the Prior Plans will remain in effect in accordance with their respective terms. The maximum term for options granted under the plans is ten (10) years.

The fair value of the options for 2007 was estimated at the date of grant using a binomial lattice option pricing model with the following weighted-average assumptions: risk-free interest rates of 4.09%; dividend yield of 3.00%; volatility factors of the expected market price of United s common stock of 0.2954; and a weighted-average expected option life of 5.89 years, respectively. The fair value of the 10,000 options granted during the second quarter of 2008 was estimated at the date of grant using a binomial lattice option pricing model with the following weighted-average assumptions: risk-free interest rates of 3.14%; dividend yield of 3.00%; volatility factors of the expected market price of United s common stock of 0.3297; and a weighted-average expected option life of 5.89 years, respectively. SFAS 123R defines a lattice modal as a model that produces an estimated fair value based on the assumed changes in prices of a financial instrument over successive periods of time. A binomial lattice model assumes at least two price movements are possible in each period of time.

A summary of option activity under the Plans as of September 30, 2008, and the changes during the first nine months of 2008 are presented below:

<b>Nine Months Ended September 30, 2008</b>				
		<b>Aggregate</b>	<b>Weighted Average</b>	
	<b>Shares</b>	<b>Intrinsic</b>	<b>Remaining</b>	<b>Exercise</b>
		<b>Value</b>	<b>Contractual</b>	<b>Price</b>
			<b>Term</b>	
			<b>(Yrs.)</b>	
Outstanding at January 1, 2008	1,921,457			\$ 27.38
Granted	10,000			28.23
Exercised	51,777			13.12
Forfeited or expired	26,873			28.60
Outstanding at September 30, 2008	1,852,807	\$ 14,398	4.9	\$ 27.77
Exercisable at September 30, 2008	1,613,257	\$ 12,666	4.3	\$ 27.77

**Table of Contents**

The following table summarizes the status of United's nonvested awards during the first nine months of 2008:

	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value Per Share</b>
Nonvested at January 1, 2008	244,550	\$ 7.06
Granted	10,000	7.25
Vested		
Forfeited or expired	15,000	7.19
Nonvested at September 30, 2008	239,550	\$ 7.06

In addition to the stock options detailed above, United has outstanding stock options related to a deferred compensation plan assumed in the 1998 merger with George Mason Bankshares, Inc. (GMBS). The stock options granted under this deferred compensation plan were to former directors of GMBS. These options carry no exercise cost, contain no expiration date, and are eligible for dividends. Other than additional options granted through reinvestment of dividends received, United does not issue additional options under this deferred compensation plan. Options outstanding at September 30, 2008 were 20,378. Options granted through the reinvestment of dividends during the first nine months of 2008 were 661. No options were exercised during the first nine months of 2008. United records compensation expense for this plan based on the number of options outstanding and United's quoted market price of its common stock with an equivalent adjustment to the associated liability.

Cash received from options exercised under the Plans for the nine months ended September 30, 2008 and 2007 was \$670 thousand and \$2.42 million, respectively. During the nine months ended September 30, 2008 and 2007, 51,777 and 183,831 shares, respectively, were issued in connection with stock option exercises. All shares issued in connection with stock option exercises were issued from available treasury stock for the nine months ended September 30, 2008 and 2007. The total intrinsic value of options exercised under the Plans during the nine months ended September 30, 2008 and 2007 was \$681 thousand and \$2.74 million, respectively.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under previous standards. While the company cannot estimate what those amounts will be in the future (because they depend on, among other things, the date employees exercise stock options), United recognized cash flows from financing activities of \$322 thousand and \$796 thousand from excess tax benefits related to share-based compensation for the nine months ended September 30, 2008 and 2007, respectively.

**14. EMPLOYEE BENEFIT PLANS**

United has a defined benefit retirement plan covering substantially all employees. Pension benefits are based on years of service and the average of the employee's highest five consecutive plan years of basic compensation paid during the ten plan years preceding the date of determination. United's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

**Table of Contents**

In September of 2007, after a recommendation by United's Pension Committee and approval by United's Board of Directors, the United Bankshares, Inc. Pension Plan (the Plan) as it relates to participation was amended. The decision to change the participation rules for the Plan follows current industry trends, as many large and medium size companies have taken similar steps. The amendment provides that employees hired on or after October 1, 2007, will not be eligible to participate in the Plan. However, new employees will continue to be eligible to participate in United's Savings and Stock Investment 401(k) plan. This change has absolutely no impact on current employees (those hired prior to October 1, 2007). They will continue to participate in the Plan, with no change in benefit provisions, and will continue to be eligible to participate in United's Savings and Stock Investment 401(k) Plan.

Included in accumulated other comprehensive income at December 31, 2007 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized transition asset of \$526 (\$319 net of tax), unrecognized prior service costs of \$8 (\$5 net of tax) and unrecognized actuarial losses of \$10,899 (\$6,604 net of tax). The amortization of these items expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2008 is \$175 (\$105 net of tax), \$1 (\$1 net of tax), and \$193 (\$119 net of tax), respectively.

In September 2006, the FASB published Statement No. 158 (SFAS 158), Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132R. The measurement date provisions of SFAS 158 require employers to measure the funded status of a plan as of the end of the employers' fiscal year, with limited exceptions. United adopted the measurement date provisions of SFAS 158 as of January 1, 2008, as required. As a result, United recognized a net periodic pension cost of \$270, net of tax, for the period between the prior measurement date of September 30, 2007 and December 31, 2007 as a separate adjustment of the opening balance of retained earnings on January 1, 2008.

Net periodic pension cost for the three and nine months ended September 30, 2008 and 2007 included the following components:

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
(In thousands)				
Service cost	\$ 544	\$ 543	\$ 1,621	\$ 1,611
Interest cost	936	876	2,786	2,599
Expected return on plan assets	(1,933)	(1,818)	(5,758)	(5,395)
Amortization of transition asset	(44)	(44)	(131)	(131)
Recognized net actuarial loss	48	150	144	444
Amortization of prior service cost	1	1	1	1
Net periodic pension (benefit) cost	\$ (448)	\$ (292)	\$ (1,337)	\$ (871)

**Weighted-Average Assumptions:**

Discount rate	6.25%	6.00%	6.25%	6.00%
Expected return on assets	8.50%	8.50%	8.50%	8.50%
Rate of compensation increase	3.25%	3.25%	3.25%	3.25%

**Table of Contents**

**15. INCOME TAXES**

In accordance with FASB Interpretation (FIN) No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, United records a liability for uncertain income tax positions based on a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken on a tax return, in order for those tax positions to be recognized in the financial statements.

As of September 30, 2008, United has provided a liability for \$7.29 million of unrecognized tax benefits related to various federal and state income tax matters. The entire amount of unrecognized tax benefits, if recognized, would impact United's effective tax rate. Over the next 12 months, the statute of limitations will close on certain income tax returns. However, at this time, United cannot reasonably estimate the amount of tax benefits it may recognize over the next 12 months.

United is currently open to audit under the statute of limitations by the Internal Revenue Service and State Taxing authorities for the years ended December 31, 2004 through 2006. As of September 30, 2008, the total amount of accrued interest related to uncertain tax positions was \$727 thousand. United accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

**Table of Contents****16. COMPREHENSIVE INCOME**

The components of total comprehensive income for the three and nine months ended September 30, 2008 and 2007 are as follows:

(In thousands)	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net Income	\$ 19,592	\$ 25,803	\$ 70,435	\$ 74,722
Securities available for sale:				
Net change in unrealized losses on available for sale securities arising during the period	(18,167)	7,412	(38,965)	3,217
Related income tax effect	6,359	(2,594)	13,638	(1,126)
Net reclassification adjustment for losses (gains) included in net income	9,167	(172)	8,258	(494)
Related income tax (benefit) expense	(3,208)	60	(2,890)	173
Net effect on other comprehensive (loss) income	(5,849)	4,706	(19,959)	1,770
Securities held to maturity:				
Unrealized loss related to the call of securities previously transferred from the available for sale to the held to maturity investment portfolio		29		1,197
Related income tax benefit		(10)		(419)
Accretion on the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio prior to call or maturity	70	70	212	312
Related income tax expense	(24)	(24)	(74)	(109)
Net effect on other comprehensive income	46	65	138	981
Cash flow hedge derivatives:				
Unrealized gain on cash flow hedge	(1,270)	(4,018)	(2,908)	(4,572)
Related income tax expense	445	1,406	1,018	1,600
Termination of cash flow hedge				2,952
Related income tax expense				(1,033)
Net effect on other comprehensive (loss) income	(825)	(2,612)	(1,890)	(1,053)
FASB 158 pension plan:				
Change in pension asset			2,250	
Related income tax expense			(788)	
Amortization of transition asset	(44)	(44)	(131)	(131)
Related income tax expense	17	16	52	52
Amortization of prior service cost	1	1	1	1
Related income tax benefit				
Recognized net actuarial loss	48	150	144	444
Related income tax benefit	(20)	(60)	(58)	(177)
Net effect on other comprehensive (loss) income	2	63	1,470	189

Total change in other comprehensive income	(6,626)	2,222	(20,241)	1,887
Total Comprehensive Income	\$ 12,966	\$ 28,025	\$ 50,194	\$ 76,609

30

---

**Table of Contents****17. EARNINGS PER SHARE**

The reconciliation of the numerator and denominator of basic earnings per share with that of diluted earnings per share is presented as follows:

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Basic</b>				
Net Income	\$ 19,592	\$ 25,803	\$ 70,435	\$ 74,722
Average common shares outstanding	43,276,962	42,731,909	43,262,926	41,458,388
Earnings per basic common share	\$ 0.45	\$ 0.60	\$ 1.63	\$ 1.80
<b>Diluted</b>				
Net Income	\$ 19,592	\$ 25,803	\$ 70,435	\$ 74,722
Average common shares outstanding	43,276,962	42,731,909	43,262,926	41,458,388
Equivalents from stock options	144,371	266,575	155,829	353,105
Average diluted shares outstanding	43,421,333	42,998,484	43,418,755	41,811,493
Earnings per diluted common share	\$ 0.45	\$ 0.60	\$ 1.62	\$ 1.79

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****FORWARD-LOOKING STATEMENTS**

Congress passed the Private Securities Litigation Act of 1995 to encourage corporations to provide investors with information about the company's anticipated future financial performance, goals, and strategies. The act provides a safe harbor for such disclosure, in other words, protection from unwarranted litigation if actual results are not the same as management expectations.

United desires to provide its shareholders with sound information about past performance and future trends.

Consequently, any forward-looking statements contained in this report, in a report incorporated by reference to this report, or made by management of United in this report, in any other reports and filings, in press releases and in oral statements, involves numerous assumptions, risks and uncertainties.

Actual results could differ materially from those contained in or implied by United's statements for a variety of factors including, but not limited to: changes in economic conditions; movements in interest rates; competitive pressures on product pricing and services; success and timing of business strategies; the nature and extent of governmental actions and reforms; and rapidly changing technology and evolving banking industry standards.

**INTRODUCTION**

The following discussion and analysis presents the significant changes in financial condition and the results

## **Table of Contents**

of operations of United and its subsidiaries for the periods indicated below. This discussion and the consolidated financial statements and the notes to consolidated financial statements include the accounts of United Bankshares, Inc. and its wholly-owned subsidiaries, unless otherwise indicated.

On July 14, 2007, United acquired 100% of the outstanding common stock of Premier Community Bankshares, Inc. (Premier) of Winchester, Virginia. The results of operations of Premier, which are not significant, are included in the consolidated results of operations from the date of acquisition. However, comparisons for the first nine months of 2008 to the first nine months of 2007 are impacted by increased levels of reported average balance sheet, income, and expense results due to the acquisition. At consummation, Premier had assets of approximately \$911 million, loans of \$759 million, deposits of \$716 million and shareholders' equity of \$71 million. The transaction was accounted for under the purchase method of accounting.

This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes thereto, which are included elsewhere in this document.

### **APPLICATION OF CRITICAL ACCOUNTING POLICIES**

The accounting and reporting policies of United conform with accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements. Actual results could differ from these estimates. 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. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for credit losses, the valuation of derivative instruments, and the calculation of the income tax provision to be the accounting areas that require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for credit losses is management's estimate of the probable credit losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance for credit losses and the appropriate provision for credit losses is based on a quarterly evaluation of the portfolio. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change. The amounts allocated to specific credits and loan pools grouped by similar risk characteristics are reviewed on a quarterly basis and adjusted as necessary based upon subsequent changes in circumstances. In determining the components of the allowance for credit losses, management considers the risk arising in part from, but not limited to, charge-off and delinquency trends, current economic and business conditions, lending policies and procedures, the size and risk characteristics of the loan portfolio, concentrations of credit, and other various factors. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The methodology used to determine the allowance for credit losses is described in Note 5 to the unaudited consolidated financial statements. A discussion of the factors leading to changes in the amount of the allowance for credit losses is



## **Table of Contents**

included in the Provision for Credit Losses section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

United uses derivative instruments as part of its risk management activities to help protect the value of certain assets and liabilities against adverse price or interest rate movements. All derivative instruments are carried at fair value on the balance sheet. The valuation of these derivative instruments is considered critical because carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are provided by third party sources. Because the majority of the derivative instruments are used to protect the value of other assets and liabilities on the balance sheet, changes in the value of the derivative instruments are typically offset by changes in the value of the assets and liabilities being hedged, although income statement volatility can occur if the derivative instruments are not effective in hedging changes in the value of those assets and liabilities.

United's calculation of income tax provision is complex and requires the use of estimates and judgments in its determination. As part of United's analysis and implementation of business strategies, consideration is given to tax laws and regulations which may affect the transaction under evaluation. This analysis includes the amount and timing of the realization of income tax liabilities or benefits. United strives to keep abreast of changes in the tax laws and the issuance of regulations which may impact tax reporting and provisions for income tax expense. United is also subject to audit by federal and state authorities. Because the application of tax laws is subject to varying interpretations, results of these audits may produce indicated liabilities which differ from United's estimates and provisions. United continually evaluates its exposure to possible tax assessments arising from audits and records its estimate of probable exposure based on current facts and circumstances.

Any material effect on the financial statements related to these critical accounting areas are further discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **USE OF FAIR VALUE MEASUREMENTS**

On January 1, 2008, United adopted SFAS No. 157, Fair Value Measurements (SFAS 157) to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. SFAS 157 clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. FAS 157 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs in the methodology for determining fair value are observable or unobservable. Observable inputs reflect market-based information obtained from independent sources (Level 1 or Level 2), while unobservable inputs reflect management's estimate of market data (Level 3). For assets and liabilities that are actively traded and have quoted prices or observable market data, a minimal amount of subjectivity concerning fair value is needed. Prices and values obtained from third party vendors that do not reflect forced liquidation or distressed sales are not adjusted by management. When quoted prices or observable market data are not available, management's judgment is necessary to estimate fair value.

At September 30, 2008, approximately 14.81% of total assets, or \$1.20 billion, consisted of financial instruments recorded at fair value. Of this total, approximately 88.30% or \$1.06 billion of these financial

**Table of Contents**

instruments used valuation methodologies involving observable market data, collectively Level 1 and Level 2 measurements, to determine fair value. Approximately 11.70% or \$140.26 million of these financial instruments were valued using unobservable market information or Level 3 measurements. Most of these financial instruments valued using unobservable market information were pooled trust preferred investment securities available-for-sale. At September 30, 2008, only \$4.25 million or less than 1% of total liabilities were recorded at fair value. This entire amount was valued using methodologies involving observable market data. United does not believe that any changes in the unobservable inputs used to value the financial instruments mentioned above would have a material impact on United's results of operations, liquidity, or capital resources. See Note 12 for additional information regarding SFAS 157 and its impact on United's financial statements.

**RECENT DEVELOPMENTS**

In response to the financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, the following is a summary of recently enacted laws and regulations that could materially impact United's financial condition or results of operations.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. Pursuant to the EESA, the U.S. Treasury will have the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The EESA also included a provision to increase the amount of deposits insured by the Federal Deposit Insurance Corporation (FDIC) to \$250,000.

On October 14, 2008, Secretary Paulson, after consulting with the Federal Reserve and the FDIC, announced that the U.S. Treasury will purchase stakes in a wide variety of U.S. banks and thrifts to encourage these institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the TARP Capital Purchase Program), the Treasury will make \$250 billion of capital available to qualifying U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions will be required to adopt the U.S. Treasury's standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds equity issued under the TARP Capital Purchase Program. These standards generally apply to the chief executive officer, chief financial officer, plus the next three most highly compensated executive officers.

Also on October 14, 2008, after receiving a recommendation from the boards of the FDIC and the Federal Reserve, and consulting with the President, Secretary Paulson signed the systemic risk exception to the FDIC Act, enabling the FDIC to temporarily provide a 100% guarantee of the senior debt of all FDIC-insured institutions and their holding companies, as well as deposits in non-interest bearing transaction deposit accounts under a Temporary Liquidity Guarantee Program. Coverage under the Temporary Liquidity Guarantee Program is available for 30 days without charge and thereafter at a cost of 75 basis points per annum for senior unsecured debt and 10 basis points per annum for non-interest bearing transaction deposits.

**Table of Contents**

**FINANCIAL CONDITION**

United's total assets as of September 30, 2008 were \$8.10 billion, an increase of \$100.81 million or 1.26% from year-end 2007. The increase was primarily the result of growth in portfolio loans of \$118.13 million or 2.04% and an increase in other assets of \$19.21 million or 9.02%. These increases were partially offset by decreases in cash and cash equivalents and investment securities of \$6.17 million and \$17.09 million, respectively. The increase in total assets is reflected in a corresponding increase in total liabilities of \$88.90 million or 1.23% from year-end 2007. The increase in total liabilities was due mainly to growth in deposits of \$154.72 million or 2.89% which more than offset a reduction of \$63.13 million or 3.49% in borrowings. Shareholders' equity increased \$11.91 million or 1.56% from year-end 2007.

The following discussion explains in more detail the changes in financial condition by major category.

**Cash and Cash Equivalents**

Cash and cash equivalents at September 30, 2008 decreased \$6.17 million or 2.68% from year-end 2007. Of this total decrease, cash and due from banks and federal funds sold decreased \$7.37 million or 3.64% and \$2.91 million or 16.63%, respectively, while interest-bearing deposits with other banks increased \$4.11 million. During the first nine months of 2008, net cash of \$84.22 million and \$55.66 million was provided by operating activities and financing activities, respectively. Net cash of \$146.06 million was used in investing activities. See the unaudited Consolidated Statements of Cash Flows for data on cash and cash equivalents provided and used in operating, investing and financing activities for the first nine months of 2008 and 2007.

**Securities**

Total investment securities at September 30, 2008 decreased \$17.09 million or 1.23% from year-end 2007. Securities available for sale increased \$13.44 million or 1.16% due to \$467.49 million in sales, maturities and calls of securities, \$511.81 million in purchases, and a decrease of \$30.76 million in market value. Securities held to maturity decreased \$30.11 million or 19.15% from year-end 2007 due to calls and maturities of securities. Other investment securities were flat, decreasing \$419 thousand or less than 1%. The amortized cost and estimated fair value of investment securities, including types and remaining maturities, is presented in Note 3 to the unaudited Notes to Consolidated Financial Statements.

**Loans**

Loans held for sale decreased \$552 thousand or 43.46% as loan sales in the secondary market exceeded originations during the first nine months of 2008. Portfolio loans, net of unearned income increased \$118.13 million or 2.04% from year-end 2007 due mainly to an increase in commercial real estate loans of \$136.60 million or 9.06%. Other real estate loans increased \$6.27 million or 2.61%. Construction loans and single-family residential real estate loans were relatively flat from year-end 2007, increasing \$3.85 million and \$14.46 million, respectively. Both increases were less than 1%. These increases were partially offset by decreases from year-end 2007 in installment loans of \$22.82 million or 6.35% and commercial loans (not secured by real estate) of \$20.66 million or 1.71%.

**Table of Contents**

The following table summarizes the changes in the loan categories since year-end 2007:

	September 30	December 31		%
(Dollars in thousands)	2008	2007	\$ Change	Change
Loans held for sale	\$ 718	\$ 1,270	\$ (552)	(43.46%)
Commercial, financial, and agricultural	\$ 1,189,387	\$ 1,210,049	\$ (20,662)	(1.71%)
Real Estate:				
Single family residential	1,896,962	1,882,498	14,464	0.77%
Commercial	1,644,143	1,507,541	136,602	9.06%
Construction	605,176	601,323	3,853	0.64%
Other	246,173	239,907	6,266	2.61%
Consumer	336,421	359,243	(22,822)	(6.35%)
Less: Unearned income	(6,644)	(7,077)	433	(6.12%)
Total Loans, net of unearned income	\$ 5,911,618	\$ 5,793,484	\$ 118,134	2.04%

For a further discussion of loans see Note 4 to the unaudited Notes to Consolidated Financial Statements.

**Other Assets**

Other assets increased \$19.21 million or 9.02% from year-end 2007 due mainly to increases of \$11.07 million in deferred tax assets, \$6.97 million in other real estate owned (OREO), \$3.32 million in the funded status of United's pension plan, and \$3.94 million in the cash surrender value of bank-owned life insurance policies. Partially offsetting these increases from year-end 2007 were decreases in accounts receivable of \$1.77 million, income taxes receivable of \$1.38 million and core deposit intangibles of \$2.75 million.

**Deposits**

Total deposits at September 30, 2008 increased \$154.72 million or 2.89% since year-end 2007. In terms of composition, noninterest-bearing deposits were relatively flat, increasing \$9.06 million or slightly less than 1% while interest-bearing deposits increased \$145.66 million or 3.28% from December 31, 2007. The slight increase in noninterest-bearing deposits was due mainly to an increase in official checks of \$25.84 million. Personal noninterest-bearing deposits decreased \$10.44 million or 4.21% as customers shifted money into interest-bearing products.

The increase in interest-bearing deposits was due mainly to a growth in time deposits under \$100,000 of \$326.45 million or 20.96%. This increase in interest-bearing deposits was due likely to the volatility in the stock market. Time deposits over \$100,000 decreased \$51.79 million or 5.43%. Interest bearing money market accounts (MMDAs) decreased \$127.41 million or 8.94%. Regular savings and interest-bearing checking account balances were relatively flat, decreasing \$800 thousand and \$788 thousand, respectively.

**Table of Contents**

The following table summarizes the changes in the deposit categories since year-end 2007:

	September 30	December 31		%
(Dollars In thousands)	2008	2007	\$ Change	Change
Demand deposits	\$ 400,439	\$ 409,109	\$ (8,670)	(2.12%)
Interest-bearing checking	173,878	174,666	(788)	(0.45%)
Regular savings	323,928	324,728	(800)	(0.25%)
Money market accounts	1,820,305	1,929,985	(109,680)	(5.68%)
Time deposits under \$100,000	1,883,926	1,557,478	326,448	20.96%
Time deposits over \$100,000	901,995	953,784	(51,789)	(5.43%)
Total deposits	\$ 5,504,471	\$ 5,349,750	\$ 154,721	2.89%

**Borrowings**

Total borrowings at September 30, 2008 decreased \$63.13 million or 3.49% during the first nine months of 2008. Since year-end 2007, short-term borrowings decreased \$216.84 million or 20.93% due to a \$289 million reduction in overnight FHLB borrowings. Federal funds purchased increased \$2.85 million or 2.93% while securities sold under agreements to repurchase increased \$72.02 million or 14.40% since year-end 2007. Long-term borrowings increased \$153.71 million or 19.85% due to an increase of \$164.34 million or 28.42% in long-term FHLB advances.

The table below summarizes the change in the borrowing categories since year-end 2007:

	September 30	December 31		%
(Dollars In thousands)	2008	2007	\$ Change	Change
Federal funds purchased	\$ 99,920	\$ 97,074	\$ 2,846	2.93%
Securities sold under agreements to repurchase	572,007	499,989	72,018	14.40%
Overnight FHLB advances	145,000	434,000	(289,000)	(66.59%)
TT&L note option	2,300	5,000	(2,700)	(54.00%)
Long-term FHLB advances	742,616	578,272	164,344	28.42%
Issuances of trust preferred capital securities	185,254	195,890	(10,636)	(5.43%)
Total borrowings	\$ 1,747,097	\$ 1,810,225	\$ (63,128)	(3.49%)

For a further discussion of borrowings see Notes 8 and 9 to the unaudited Notes to Consolidated Financial Statements.

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities at September 30, 2008 increased \$3.77 million or 5.77% from year-end 2007 mainly as a result of an increase in income taxes payable of \$3.41 million due to a timing difference in payments. In addition, derivative liabilities increased \$3.47 million due to a change in value and a liability of \$1.55 million was recorded for split dollar life insurance policies based on the adoption of EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. Interest payable decreased \$2.93 million due to a decline in borrowings and interest rates and other accrued expenses declined \$1.43 million due to payments.

## **Table of Contents**

### **Shareholders' Equity**

Shareholders' equity at September 30, 2008 increased \$11.91 million or 1.56% from December 31, 2007 as United continued to balance capital adequacy and the return to shareholders. The increase in shareholders' equity was due mainly to earnings net of dividends declared which equaled \$32.79 million for the first nine months of 2008.

Accumulated other comprehensive income decreased \$20.24 million due mainly to a decline of \$19.96 million, net of deferred taxes, in the fair value of United's available for sale investment portfolio. The fair value of cash flow hedges decreased \$1.89 million, net of deferred taxes.

### **RESULTS OF OPERATIONS**

#### **Overview**

Net income for the first nine months of 2008 was \$70.44 million or \$1.62 per diluted share while net income for the third quarter of 2008 was \$19.59 million or \$0.45 per diluted share. These results included a noncash before-tax other-than-temporary impairment charge of \$9.00 million on a corporate debt holding and a positive tax adjustment of \$1.42 million due to the expiration of the statute of limitations for examinations of certain years.

Earnings for the first nine months of 2007 were \$74.72 million or \$1.79 per diluted share while earnings for the third quarter of 2007 were \$25.80 million or \$0.60 per diluted share. During the third quarter of 2007, United recorded a positive tax adjustment of \$1.06 million due to the expiration of the statute of limitations for examinations of certain years.

United's annualized return on average assets for the first nine months of 2008 was 1.18% and return on average shareholders' equity was 12.05% as compared to 1.45% and 14.81% for the first nine months of 2007. For the third quarter of 2008, United's annualized return on average assets was 0.97% while the return on average equity was 9.94% as compared to 1.37% and 13.91%, respectively, for the third quarter of 2007.

Tax-equivalent net interest income for the first nine months of 2008 increased \$23.71 million or 13.41% from the prior year's first nine months. Tax-equivalent net interest income for the third quarter of 2008 increased \$4.27 million or 6.74% as compared to the same period of 2007. The provision for credit losses was \$12.95 million for the first nine months of 2008 as compared to \$2.75 million for the first nine months of 2007. For the quarters ended September 30, 2008 and 2007, the provision for credit losses was \$6.50 million and \$1.55 million, respectively.

Noninterest income for the first nine months of 2008 decreased \$644 thousand or 1.32% from the first nine months of 2007. For the third quarter of 2008, noninterest income decreased \$7.00 million or 40.38% from the third quarter of 2007. The results for 2008 included the previously mentioned noncash before-tax other-than-temporary impairment charge. Noninterest expense for the first nine months of 2008 increased \$21.46 million or 20.83% from the same period in 2007. For the third quarter of 2008, noninterest expense increased \$2.62 million or 6.70% from the third quarter of 2007. United's effective tax rate was 29.75% and 30.55% for the first nine months of 2008 and 2007, respectively, and 25.60% and 28.06% for the third quarter of 2008 and 2007, respectively. During the third quarter of 2008 and 2007, United reduced its

**Table of Contents**

income tax reserve by \$1.42 million and \$1.06 million, respectively, due to the expiration of the statute of limitations for examinations of certain years.

The following discussion explains in more detail the changes in the results of operations by major category.

**Net Interest Income**

Tax-equivalent net interest income for the first nine months of 2008 was \$200.62 million, an increase of \$23.71 million or 13.41% from the prior year's first nine months. This increase in tax-equivalent net interest income was primarily attributable to a \$951.22 million or 15.22% increase in average earning assets resulting primarily from the Premier acquisition. Average net loans increased \$843.98 million or 17.10% while average investment securities increased \$123.33 million or 9.77%. Additionally, the average cost of funds for the first nine months of 2008 declined 99 basis points from the first nine months of 2007 due to a decrease in market interest rates and the refinancing of long-term debt during the second and fourth quarters of 2007. However, the average yield on earning assets declined 84 basis points due to the decrease in market interest rates. The net interest margin for the first nine months of 2008 was 3.72% as compared to 3.78% for the first nine months of 2007.

Tax-equivalent net interest income for the third quarter of 2008 was \$67.59 million, an increase of \$4.27 million or 6.74% from the third quarter of 2007 due mainly to a \$523.82 million or 7.77% increase in average earning assets as average net loans grew \$463.94 million or 8.61% while average investment securities increased \$103.78 million or 8.13%. Additionally, the average cost of funds declined 129 basis points in the third quarter of 2008 as compared to the third quarter of 2007 due to a decrease in market interest rates and United's refinancing of long-term debt in the fourth quarter of 2007. Partially offsetting these increases to net interest income was a decrease of 112 basis points in the third quarter of 2008 average yield on earning assets due to the decline in market interest rates. The net interest margin for the third quarter of 2008 was 3.71% as compared to 3.75% for the third quarter of 2007.

On a linked-quarter basis, United's tax-equivalent net interest income for the third quarter of 2008 increased \$798 thousand or 1.19% from the second quarter of 2008. The increase was due mainly to a 9 basis point decline in the average cost of funds from the second quarter of 2008. Average earning assets were relatively flat, increasing \$53.27 million or less than 1% as average net loans grew \$86.37 million or 1.50% but average investments decreased \$19.37 million or 1.38% for the quarter. The net interest margin of 3.71% for the third quarter of 2008 was equal to the net interest margin for the second quarter of 2008.

**Table of Contents**

Tables 1 and 2 below show the unaudited consolidated daily average balance of major categories of assets and liabilities for the three-month and nine-month periods ended September 30, 2008 and 2007, respectively, with the interest and rate earned or paid on such amount. The interest income and yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%. The interest income and yield on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income tax rate of 8.75% in 2008 and 9% in 2007.

**Table 1**

	<b>Three Months Ended September 30, 2008</b>			<b>Three Months Ended September 30, 2007</b>		
<i>(Dollars in thousands)</i>	<b>Average Balance</b>	<b>Interest</b>	<b>Avg. Rate</b>	<b>Average Balance</b>	<b>Interest</b>	<b>Avg. Rate</b>
<b>ASSETS</b>						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	\$ 29,126	\$ 140	1.91%	\$ 73,025	\$ 876	4.76%
Investment Securities:						
Taxable	1,179,424	15,104	5.12%	1,055,455	13,832	5.24%
Tax-exempt (1) (2)	201,160	3,702	7.36%	221,351	4,549	8.22%
Total Securities	1,380,584	18,806	5.45%	1,276,806	18,381	5.76%
Loans, net of unearned income (1) (2) (3)	5,908,810	91,265	6.15%	5,436,915	102,262	7.47%
Allowance for loan losses	(57,041)			(49,088)		
Net loans	5,851,769		6.21%	5,387,827		7.54%
Total earning assets	7,261,479	\$ 110,211	6.05%	6,737,658	\$ 121,519	7.17%
Other assets	781,995			759,307		
<b>TOTAL ASSETS</b>	<b>\$ 8,043,474</b>			<b>\$ 7,496,965</b>		
<b>LIABILITIES</b>						
Interest-Bearing Funds:						
Interest-bearing deposits	\$ 4,571,745	\$ 29,538	2.57%	\$ 4,391,017	\$ 40,176	3.63%
Short-term borrowings	830,170	3,214	1.54%	712,609	8,220	4.58%
Long-term borrowings	921,568	9,871	4.26%	714,870	9,801	5.44%
Total Interest-Bearing Funds	6,323,483	42,623	2.68%	5,818,496	58,197	3.97%
Noninterest-bearing deposits	880,569			876,034		
Accrued expenses and other liabilities	55,569			66,534		
<b>TOTAL LIABILITIES</b>	<b>7,259,621</b>			<b>6,761,064</b>		
<b>SHAREHOLDERS EQUITY</b>	<b>783,853</b>			<b>735,901</b>		
	<b>\$ 8,043,474</b>			<b>\$ 7,496,965</b>		



TOTAL LIABILITIES AND  
SHAREHOLDERS EQUITY

<b>NET INTEREST INCOME</b>	<b>\$ 67,588</b>	<b>\$ 63,322</b>
<b>INTEREST SPREAD</b>	<b>3.37%</b>	<b>3.20%</b>
<b>NET INTEREST MARGIN</b>	<b>3.71%</b>	<b>3.75%</b>

(1) The interest income and the yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%.

(2) The interest income and the yields on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income tax rate of 8.75% in 2008 and 9% in 2007.

(3) Nonaccruing loans are included in the daily average loan amounts outstanding.

**Table of Contents****Table 2**

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
<i>(Dollars in thousands)</i>						
<b>ASSETS</b>						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	\$ 35,713	\$ 632	2.36%	\$ 51,807	\$ 1,980	5.11%
Investment Securities:						
Taxable	1,170,639	45,125	5.14%	1,041,117	40,446	5.18%
Tax-exempt (1) (2)	215,527	12,115	7.49%	221,716	13,631	8.20%
Total Securities	1,386,166	57,240	5.51%	1,262,833	54,077	5.71%
Loans, net of unearned income (1) (2) (3)	5,835,445	279,901	6.40%	4,982,200	275,883	7.40%
Allowance for loan losses	(54,825)			(45,560)		
Net loans	5,780,620		6.47%	4,936,640		7.47%
Total earning assets	7,202,499	\$ 337,773	6.26%	6,251,280	\$ 331,940	7.10%
Other assets	781,654			624,307		
<b>TOTAL ASSETS</b>	<b>\$ 7,984,153</b>			<b>\$ 6,875,587</b>		
<b>LIABILITIES</b>						
Interest-Bearing Funds:						
Interest-bearing deposits	\$ 4,518,325	\$ 94,850	2.80%	\$ 4,040,301	\$ 107,574	3.56%
Short-term borrowings	913,105	13,794	2.02%	679,128	22,846	4.50%
Long-term borrowings	852,074	28,514	4.47%	582,512	24,619	5.65%
Total Interest-Bearing Funds	6,283,504	137,158	2.92%	5,301,941	155,039	3.91%
Non-interest bearing deposits	858,701			831,739		
Accrued expenses and other liabilities	61,203			67,190		
<b>TOTAL LIABILITIES</b>	<b>7,203,408</b>			<b>6,200,870</b>		
<b>SHAREHOLDERS EQUITY</b>	<b>780,745</b>			<b>674,717</b>		
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 7,984,153</b>			<b>\$ 6,875,587</b>		
<b>NET INTEREST INCOME</b>		<b>\$ 200,615</b>			<b>\$ 176,901</b>	

<b>INTEREST SPREAD</b>	3.34%	3.19%
<b>NET INTEREST MARGIN</b>	3.72%	3.78%

(1) The interest income and the yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%.

(2) The interest income and the yields on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income tax rate of 8.75% in 2008 and 9% in 2007.

(3) Nonaccruing loans are included in the daily average loan amounts outstanding.

#### **Provision for Credit Losses**

The provision for credit losses for the first nine months of 2008 and 2007 was \$12.95 million and \$2.75 million, respectively. For the quarters ended September 30, 2008 and 2007, the provision for credit losses was \$6.50 million and \$1.55 million, respectively. Net charge-offs for the first nine months of 2008 were

**Table of Contents**

\$12.30 million as compared to \$4.15 million for the first nine months of 2007. Net charge-offs were \$6.27 million for the third quarter of 2008 as compared to net charge-offs of \$1.80 million for the same quarter in 2007. These higher amounts of provision expense and net charge-offs in 2008 reflect a weakened credit environment due to a deterioration of economic conditions. Annualized net charge-offs as a percentage of average loans were 0.42% and 0.28% for the third quarter and first nine months of 2008, respectively.

At September 30, 2008, nonperforming loans were \$49.03 million or 0.83% of loans, net of unearned income compared to nonperforming loans of \$28.33 million or 0.49% of loans, net of unearned income at December 31, 2007. The increase in nonperforming loans since year-end is indicative of the decline in economic conditions. These nonperforming loans are not of one particular portfolio, but rather represent several customer segments. Higher unemployment levels, increased energy prices, and declines in real estate values have impacted the performance of both consumer and commercial portfolios. The components of nonperforming loans include nonaccrual loans and loans, which are contractually past due 90 days or more as to interest or principal, but have not been put on a nonaccrual basis. At September 30, 2008, nonaccrual loans were \$36.07 million, an increase of \$21.95 million or 155.51% from \$14.12 million at year-end 2007. Loans past due 90 days or more were \$12.96 million at September 30, 2008, a decrease of \$1.25 million or 8.78% from \$14.21 million at year-end 2007. The loss potential on these loans has been properly evaluated and allocated within the company's allowance for loan losses. Total nonperforming assets of \$62.37 million, including OREO of \$13.34 million at September 30, 2008, represented 0.77% of total assets at the end of the third quarter which compares favorably to the most recently reported percentage of 0.96% at June 30, 2008 for United's peer group. For a summary of nonperforming assets, see Note 6 to the unaudited Notes to Consolidated Financial Statements.

At September 30, 2008, impaired loans were \$61.16 million, which was an increase of \$30.20 million or 97.58% from the \$30.95 million in impaired loans at December 31, 2007. Generally, the increase in impaired loans from year-end 2007 is indicative of a weakened credit environment due to a deterioration of economic conditions. Specifically, the increase in impaired loans was due partially to the addition of \$2.69 million of commercial loans to a rental car agency and \$3.42 million of commercial and personal loans to an automobile dealer. Most of these credits are collateralized by motor vehicle inventory or real estate. In addition, several residential real estate construction loans totaling approximately \$6.68 million were added during the first nine months of 2008. The loans are collateralized by land, some with partially completed homes. The remainder of the increase is primarily due to seven large commercial credits totaling \$9.20 million that were added during the first nine months of 2008. Most of these loans are to commercial real estate developers. Based on current information and events, United believes it is probable that the borrowers will not be able to repay all amounts due according to the contractual terms of the loan agreements. The loss potential on these loans has been properly evaluated and allocated within the company's allowance for loan losses. For further details regarding impaired loans, see Note 6 to the unaudited Consolidated Financial Statements.

United maintains an allowance for loan losses and an allowance for lending-related commitments. The combined allowances for loan losses and lending-related commitments are referred to as the allowance for credit losses. United evaluates the adequacy of the allowance for credit losses and its loan administration policies are focused upon the risk characteristics of the loan portfolio. United's process for evaluating the allowance is a formal company-wide process that focuses on early identification of potential problem credits and procedural discipline in managing and accounting for those credits. This process determines the

**Table of Contents**

appropriate level of the allowance for credit losses, allocation among loan types and lending-related commitments, and the resulting provision for credit losses.

At September 30, 2008, the allowance for credit losses was \$59.39 million as compared to \$58.74 million at December 31, 2007. As a percentage of loans, net of unearned income, the allowance for credit losses was 1.00% at September 30, 2008 as compared to 1.01% at December 31, 2007. The ratio of the allowance for credit losses to nonperforming loans was 121.13% and 207.39% at September 30, 2008 and December 31, 2007, respectively. Allocations are made for specific commercial loans based upon management's estimate of the borrowers' ability to repay and other factors impacting collectibility. Other commercial loans not specifically reviewed on an individual basis are evaluated based on historical loss percentages applied to loan pools that have been segregated by risk. Allocations for loans other than commercial loans are made based upon historical loss experience adjusted for current conditions. The allowance for credit losses includes estimated 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 fully manifested themselves in loss allocation factors. In addition, a portion of the allowance accounts for the inherent imprecision in the allowance for credit losses analysis. Over the past several years, United has grown through acquisition, and accordingly, expanded the geographic area in which it operates. As a result, historical loss experience data used to establish allocation estimates might not precisely correspond to the current portfolio in these other geographic areas.

United's formal company-wide process at September 30, 2008 produced increased allocations in three of the four loan categories. The components of the allowance allocated to commercial loans increased by \$6.28 million due to the impact of an increase in historical loss rates, increased outstandings in the watch loan pool, an increase in qualitative factors for business and economic conditions and higher specific allocations on impaired loans. The real estate loan pool allocations increased \$1.03 million also as a result of increases in loss rates. The real estate construction loan pool allocations decreased \$392 thousand in comparison with the December 31, 2007 year-end primarily due to decreased outstandings and lower loss rates. The components of the allowance allocated to consumer loans increased by \$258 thousand due to an increase in the qualitative factor linked to delinquency trends, which have increased. The methodology for calculation of the unfunded commitments liability was changed to be more consistent with the historical utilization of unfunded commitments and this resulted in a decrease of \$6.46 million to \$1.83 million.

An allowance is established for probable credit losses on impaired loans via specific allocations. Nonperforming commercial loans and leases are regularly reviewed to identify impairment. A loan or lease is impaired when, based on current information and events, it is probable that the bank will not be able to collect all amounts contractually due. Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Impairment is measured based upon the present value of expected future cash flows from the loan discounted at the loan's effective rate, the loan's observable market price or the fair value of collateral, if the loan is collateral dependent. When the selected measure is less than the recorded investment in the loan, an impairment has occurred. The allowance for impaired loans was \$4.96 million at September 30, 2008 and \$3.61 million at December 31, 2007. Compared to the prior year-end, this element of the allowance increased by \$1.35 million due to increased

## **Table of Contents**

allocations to specific commercial real estate construction and land development loans.

An allowance is also recognized for imprecision inherent in loan loss migration models and other estimates of loss.

There are many factors affecting the allowance for loan losses and allowance for lending-related commitments; some are quantitative while others require qualitative judgment. Although management believes its methodology for determining the allowance adequately considers all of the potential factors to identify and quantify probable losses in the portfolio, the process includes subjective elements and is therefore susceptible to change. This estimate for imprecision has been established to recognize the variance, within a reasonable margin, of the loss estimation process. The estimate for imprecision at September 30, 2008 remained consistent with prior periods, decreasing by only \$75 thousand to \$1.03 million which represents 1.74% of the bank's total allowance for credit loss. In as much as this variance approximates a pre determined narrow parameter, the methodology has confirmed that the Bank's allowance for credit loss is at an appropriate level.

Management believes that the allowance for credit losses of \$59.39 million at September 30, 2008 is adequate to provide for probable losses on existing loans and loan-related commitments based on information currently available. Note 5 to the accompanying unaudited Notes to Consolidated Financial Statements provides a progression of the allowance for credit losses.

United's loan administration policies are focused on the risk characteristics of the loan portfolio in terms of loan approval and credit quality. The commercial loan portfolio is monitored for possible concentrations of credit in one or more industries. Management has lending limits as a percentage of capital per type of credit concentration in an effort to ensure adequate diversification within the portfolio. Most of United's commercial loans are secured by real estate located in West Virginia, Southeastern Ohio, Virginia and Maryland. It is the opinion of management that these commercial loans do not pose any unusual risks and that adequate consideration has been given to these loans in establishing the allowance for credit losses.

Management is not aware of any potential problem loans, trends or uncertainties, which it reasonably expects, will materially impact future operating results, liquidity, or capital resources which have not been disclosed. Additionally, management has disclosed all known material credits, which cause management to have serious doubts as to the ability of such borrowers to comply with the loan repayment schedules.

### **Other Income**

Other income consists of all revenues, which are not included in interest and fee income related to earning assets.

Noninterest income has been and will continue to be an important factor for improving United's profitability.

Recognizing the importance, management continues to evaluate areas where noninterest income can be enhanced.

Noninterest income was \$48.12 million for the first nine months of 2008. Included in noninterest income for the first nine months of 2008 was the noncash before-tax other-than-temporary impairment charge of \$9.00 million recognized in the third quarter of 2008 and a \$917 thousand gain recorded in the first quarter of 2008 related to Visa's initial public offering and the partial redemption of Visa shares held by United. Noninterest income for the first nine months of 2007 was \$48.77 million which included a before-tax gain of \$787 thousand on the termination of two interest rate swap transactions. Excluding the results of security transactions and swap terminations, noninterest income would have increased \$8.90 million or 18.73% from

**Table of Contents**

the first nine months of 2007.

Noninterest income for the third quarter of 2008 was \$10.33 million which included the previously mentioned noncash before-tax other-than-temporary impairment charge. Noninterest income for the third quarter of 2007 was \$17.33 million. Excluding the results of security transactions, noninterest income for the third quarter of 2008 would have increased \$2.34 million or 13.66% from the third quarter of 2007.

Revenue from trust and brokerage services for the first nine months of 2008 grew \$1.92 million or 17.27% from the first nine months of 2007. For the third quarter of 2008, revenue from trust and brokerage services grew \$734 thousand or 19.38% from the prior year's third quarter. The increase in trust and brokerage services is the result of increased volume. United continues its efforts to broaden the scope and activity of its trust and brokerage service areas, especially in the northern Virginia market, to provide additional sources of fee income that complement United's traditional banking products and services. The northern Virginia market provides a relatively large number of potential customers with high per capita incomes.

Fees from deposit services for the first nine months of 2008 grew \$5.20 million or 21.55% from the first nine months of 2007 mainly as a result of United's High Performance Checking program and the Premier acquisition. For the third quarter of 2008, fees from deposit services increased \$1.16 million or 12.81% as compared to the same period in 2007. In particular, insufficient funds (NSF) fees increased \$3.37 million and \$574 thousand during the first nine months and third quarter of 2008, respectively, and check card fees increased \$1.13 million and \$295 thousand, respectively. In addition, account analysis fees increased \$532 thousand and \$200 thousand, respectively, for the first nine months and third quarter of 2008 as compared to the same periods in 2007.

Income from bank-owned life insurance was flat, decreasing \$22 thousand or less than 1% for the first nine months of 2008. However, the income increased \$443 thousand for third quarter of 2008 as compared to last year's income during the same periods due to changes in the cash surrender value.

Mortgage banking income decreased \$105 thousand or 23.49% and \$31 thousand or 25.00% for the first nine months and third quarter of 2008 from the same periods in 2007 due to fewer sales. Mortgage loan sales were \$27.54 million in the first nine months of 2008 as compared to \$32.19 million in the first nine months of 2007. Mortgage loan sales were \$5.81 million in the third quarter of 2008 as compared to \$9.47 million in the third quarter of 2007.

Other income increased \$1.31 million and \$325 thousand for the first nine months and third quarter of 2008, respectively. This increase in other income is due mainly to an increase of \$2.02 million and \$670 thousand for the first nine months and third quarter of 2008, respectively, from derivatives not in a hedging relationship. A corresponding amount of expense is included in other expense in the income statement. Income from the outsourcing of official checks processing for the first nine months and third quarter of 2008 decreased \$544 thousand and \$258 thousand, respectively, over the same periods last year. The outsourcing of official checks processing was discontinued in 2008 and brought in-house.

On a linked-quarter basis, noninterest income for the third quarter of 2008 decreased \$8.85 million from the second quarter of 2008 due to the previously mentioned \$9.00 million other-than-temporary impairment charge. Excluding the results of security transactions, noninterest income would have increased \$268

**Table of Contents**

thousand or 1.39% due mainly to higher income from bank owned life insurance of \$610 thousand as a result of an increase in the cash surrender value.

**Other Expenses**

Just as management continues to evaluate areas where noninterest income can be enhanced, it strives to improve the efficiency of its operations to reduce costs. Other expenses include all items of expense other than interest expense, the provision for loan losses, and income taxes. For the first nine months of 2008, noninterest expenses increased \$21.46 million or 20.83% from the first nine months of 2007. Noninterest expenses increased \$2.62 million or 6.70% for the third quarter of 2008 compared to the same period in 2007. Noninterest expense for the first nine months of 2007 included a before-tax penalty of \$786 thousand to prepay approximately \$28.9 million of a \$100 million long-term convertible FHLB advance.

Salaries and benefits expense for the first nine months of 2008 increased \$9.53 million or 20.18% from the first nine months of 2007. The increase in salaries and benefits expense was due mainly to the additional employees from the Premier merger. Salaries and benefits expense for the third quarter of 2008 increased \$1.21 million or 6.87% from the third quarter of 2007. The increase in salaries and benefits expense was due mainly to the timing of the Premier merger. Of these total increases, salaries and employee incentives increased \$7.85 million and \$772 thousand for the first nine months and third quarter of 2008, respectively, while benefits expense increased \$1.55 million and \$366 thousand. Specifically within benefits expense were increases in health insurance costs of \$720 thousand and \$112 thousand and in pension expense of \$182 thousand and \$176 thousand for the first nine months and third quarter of 2008, respectively. Also included in salaries and benefits expense for the first nine months and third quarter of 2008 was expense for stock options of \$410 thousand and \$133 thousand, respectively. No expense for stock options was incurred in the first nine months of 2007.

Net occupancy expense for the first nine months increased \$2.04 million or 19.64% from the first nine months of 2007. The increase was due mainly to additional building depreciation, building rental expense, and building maintenance from the branches added in the Premier merger. Net occupancy expense for the third quarter of 2008 increased \$340 thousand or 8.89% from the third quarter of 2007 due to increased expenses associated with building maintenance and utilities. Equipment expense including other real estate owned (OREO), increased \$1.21 million or 24.76% from the first nine months of 2007 due mainly to an increase in losses due to a deterioration in property values associated with OREO. Equipment expense for the third quarter of 2008 decreased \$269 thousand or 13.06% from the third quarter of 2007 due to a decrease in depreciation expense.

Data processing expense increased \$1.26 million or 19.68% for the first nine months as compared to the first nine months of 2007. The increase was primarily due to additional outsourcing of processing functions and a change in processing procedures in addition to the Premier merger. The expense for outsourcing of functions was partially offset by a reduction in personnel expense while the change in processing procedures is expected to result in future cost savings as United meets the requirements of Check 21. Data processing expense for the third quarter of 2008 was relatively flat from the third quarter of 2007, increasing \$13 thousand or less than 1%.

Other expenses increased \$7.97 million or 27.01% for the first



## **Table of Contents**

nine months of 2008 as compared to the first nine months of 2007 due mainly to an increase of \$2.02 million from derivatives not in a hedging relationship. Amortization of core deposit intangibles for the first nine months increased \$957 thousand from the first nine months of 2007 as a result of the Premier merger. In addition, several general operating expenses such as postage, telephone, ATM processing, office supplies, advertising, armored car and business franchise taxes increased as a result of the additional branches from the Premier merger. None of the increases were individually significant. Other expenses for the third quarter of 2008 increased \$1.49 million or 12.73% as compared to the third quarter of 2007 due mainly to an increase of \$670 thousand from derivatives not in a hedging relationship. In addition, several general operating expenses increased, none of which were individually significant.

On a linked-quarter basis, noninterest expense for the third quarter of 2008 was relatively flat from the second quarter of 2008, increasing \$161 thousand or less than 1%. Salaries and employee benefits expense was flat, decreasing \$175 thousand or less than 1%. Net occupancy expense increased \$189 thousand or 4.76% due to increased building maintenance and utilities expense. Equipment expense decreased \$698 thousand or 28.05% due to fewer OREO losses. Other expense increased \$968 thousand or 7.93% as several general operating expenses increased, none of which were individually significant.

### **Income Taxes**

For the first nine months of 2008 and 2007, income taxes were \$29.83 million and \$32.88 million, respectively. For the third quarter of 2008, income taxes were \$6.74 million as compared to \$10.06 million for the third quarter of 2007. During the third quarter of 2008, United reduced its income tax reserve by \$1.42 million as compared to \$1.06 million for the third quarter of 2007 due to the expiration of the statute of limitations for examinations of certain years.

United's effective tax rates for the first nine months of 2008 and 2007 were 29.75% and 30.55%, respectively. For the quarters ended September 30, 2008 and 2007, United's effective tax rates were 25.60% and 28.06%, respectively.

### **Contractual Obligations, Commitments, Contingent Liabilities and Off-Balance Sheet Arrangements**

United has various financial obligations, including contractual obligations and commitments, that may require future cash payments. Please refer to United's Annual Report on Form 10-K for the year ended December 31, 2007 for disclosures with respect to United's fixed and determinable contractual obligations. There have been no material changes outside the ordinary course of business since year-end 2007 in the specified contractual obligations disclosed in the Annual Report on Form 10-K.

On January 1, 2007, United adopted the provisions of FIN 48. As of September 30, 2008, United recorded a liability for uncertain tax positions, including interest and penalties, of \$7.29 million in accordance with FIN 48. This liability represents an estimate of tax positions that United has taken in its tax returns which may ultimately not be sustained upon examination by tax authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability is excluded from the contractual obligations table.

United also enters into derivative contracts, mainly to protect against adverse interest rate movements on the value of certain assets or liabilities, under which it is required to either pay cash to or receive cash from counterparties depending on changes in interest rates. Derivative contracts are carried at fair value and not

## **Table of Contents**

notional value on the consolidated balance sheet. Further discussion of derivative instruments is presented in Note 11 to the unaudited Notes to Consolidated Financial Statements.

United is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments and standby letters of credit. United's maximum exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for the loan commitments and standby letters of credit is the contractual or notional amount of those instruments. United uses the same policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Further discussion of off-balance sheet commitments is included in Note 10 to the unaudited Notes to Consolidated Financial Statements.

### **Liquidity**

In the opinion of management, United maintains liquidity that is sufficient to satisfy its depositors' requirements and the credit needs of its customers. Like all banks, United depends upon its ability to renew maturing deposits and other liabilities on a daily basis and to acquire new funds in a variety of markets. A significant source of funds available to United is core deposits. Core deposits include certain demand deposits, statement and special savings and NOW accounts. These deposits are relatively stable, and they are the lowest cost source of funds available to United. Short-term borrowings have also been a significant source of funds. These include federal funds purchased and securities sold under agreements to repurchase as well as advances from the FHLB. Repurchase agreements represent funds which are obtained as the result of a competitive bidding process.

Liquid assets are cash and those items readily convertible to cash. All banks must maintain sufficient balances of cash and near-cash items to meet the day-to-day demands of customers and United's cash needs. Other than cash and due from banks, the available for sale securities portfolio and maturing loans are the primary sources of liquidity.

The goal of liquidity management is to ensure the ability to access funding which enables United to efficiently satisfy the cash flow requirements of depositors and borrowers and meet United's cash needs. Liquidity is managed by monitoring funds availability from a number of primary sources. Substantial funding is available from cash and cash equivalents, unused short-term borrowing and a geographically dispersed network of branches providing access to a diversified and substantial retail deposit market.

Short-term needs can be met through a wide array of outside sources such as correspondent and downstream correspondent federal funds and utilization of Federal Home Loan Bank advances.

Other sources of liquidity available to United to provide long-term as well as short-term funding alternatives, in addition to FHLB advances, are long-term certificates of deposit, lines of credit, borrowings that are secured by bank premises or stock of United's subsidiaries and issuances of trust preferred securities. In the normal course of business, United through its Asset Liability Committee evaluates these as well as other alternative funding strategies that may be utilized to meet short-term and long-term funding needs.

## **Table of Contents**

For the nine months ended September 30, 2008, cash of \$84.22 million was provided by operating activities. Net cash of \$146.06 million was used in investing activities which was primarily due to loan growth of \$122.95 million and net purchases of investment securities of \$22.98 million. During the first nine months of 2008, net cash of \$55.66 million was provided by financing activities due primarily to net advances of \$164.34 million in long-term FHLB borrowings and growth of \$155.11 million in deposits. Uses of cash for financing activities included the repayment of \$216.84 million in short-term borrowings, the payment of \$37.63 million for cash dividends and the redemption of a trust preferred issuance in the amount of \$10.31 million. The net effect of the cash flow activities was a decrease in cash and cash equivalents of \$6.17 million for the first nine months of 2008.

United anticipates it can meet its obligations over the next 12 months and has no material commitments for capital expenditures. There are no known trends, demands, commitments, or events that will result in or that are reasonably likely to result in United's liquidity increasing or decreasing in any material way. United also has significant lines of credit available. See Notes 8 and 9 to the accompanying unaudited Notes to Consolidated Financial Statements for more details regarding the amounts available to United under line of credit.

The Asset Liability Committee monitors liquidity to ascertain that a liquidity position within certain prescribed parameters is maintained. No changes are anticipated in the policies of United's Asset Liability Committee.

### **Capital Resources**

United's capital position is financially sound. United seeks to maintain a proper relationship between capital and total assets to support growth and sustain earnings. United has historically generated attractive returns on shareholders equity. Based on regulatory requirements, United and its banking subsidiaries are categorized as well capitalized institutions. United's risk-based capital ratios of 10.99% at September 30, 2008 and 10.76% at December 31, 2007, were both significantly higher than the minimum regulatory requirements. United's Tier I capital and leverage ratios of 9.96% and 8.47%, respectively, at September 30, 2008, are also well above regulatory minimum requirements. Total shareholders' equity was \$773.11 million, an increase of \$11.91 million or 1.56% from December 31, 2007. United's equity to assets ratio was 9.55% at September 30, 2008 as compared to 9.52% at December 31, 2007. The primary capital ratio, capital and reserves to total assets and reserves, was 10.21% at September 30, 2008 as compared to 10.18% at December 31, 2007. United's average equity to average asset ratio was 9.75% and 9.82% for the quarters ended September 30, 2008 and 2007, respectively. For the first nine months of 2008 and 2007, the average equity to average assets ratio was 9.78% and 9.81%, respectively. All of these financial measurements reflect a financially sound position.

During the third quarter of 2008, United's Board of Directors declared a cash dividend of \$0.29 per share. Cash dividends were \$0.87 per common share for the first nine months of 2008. Total cash dividends declared were approximately \$12.55 million for the third quarter of 2008 and \$37.64 million for the first nine months of 2008, an increase of 3.83% and 7.83% over comparable periods of 2007. The year 2008 is expected to be the thirty-fifth consecutive year of dividend increases to United shareholders.

**Table of Contents**

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The objective of United's Asset Liability Management function is to maintain consistent growth in net interest income within United's policy guidelines. This objective is accomplished through the management of balance sheet liquidity and interest rate risk exposures due to changes in economic conditions, interest rate levels and customer preferences.

**Interest Rate Risk**

Management considers interest rate risk to be United's most significant market risk. Interest rate risk is the exposure to adverse changes in United's net interest income as a result of changes in interest rates. United's earnings are largely dependent on the effective management of interest rate risk.

Management of interest rate risk focuses on maintaining consistent growth in net interest income within Board-approved policy limits. United's Asset Liability Management Committee (ALCO), which includes senior management representatives and reports to the Board of Directors, monitors and manages interest rate risk to maintain an acceptable level of change to net interest income as a result of changes in interest rates. Policy established for interest rate risk is stated in terms of the change in net interest income over a one-year and two-year horizon given an immediate and sustained increase or decrease in interest rates. The current limits approved by the Board of Directors are structured on a staged basis with each stage requiring specific actions.

United employs a variety of measurement techniques to identify and manage its exposure to changing interest rates. One such technique utilizes an earnings simulation model to analyze the sensitivity of net interest income to movements in interest rates. The model is based on actual cash flows and repricing characteristics for on and off-balance sheet instruments and incorporates market-based assumptions regarding the impact of changing interest rates on the prepayment rate of certain assets and liabilities. The model also includes executive management projections for activity levels in product lines offered by United. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. Rate scenarios could involve parallel or nonparallel shifts in the yield curve, depending on historical, current, and expected conditions, as well as the need to capture any material effects of explicit or embedded options. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure net interest income or precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management's strategies.

Interest sensitive assets and liabilities are defined as those assets or liabilities that mature or are repriced within a designated time frame. The principal function of interest rate risk management is to maintain an appropriate relationship between those assets and liabilities that are sensitive to changing market interest rates. The difference between rate sensitive assets and rate sensitive liabilities for specified periods of time is known as the GAP. Earnings-simulation analysis captures not only the potential of these interest sensitive assets and liabilities to mature or reprice but also the probability that they will do so. Moreover, earnings-simulation analysis considers the relative sensitivities of these balance sheet items and projects their behavior over an extended period of time. United closely monitors the sensitivity of its assets and liabilities on an on-going basis and projects the effect of various interest rate changes on its net interest

**Table of Contents**

margin.

The following table shows United's estimated earnings sensitivity profile as of September 30, 2008 and December 31, 2007:

<b>Change in Interest Rates  (basis points)</b>	<b>Percentage Change in Net Interest Income</b>	
	<b>September 30, 2008</b>	<b>December 31, 2007</b>
+200	3.69%	2.37%
+100	1.73%	1.71%
-100	-1.44%	-0.60%
-200	-7.72%	-3.33%

At September 30, 2008, given an immediate, sustained 100 basis point upward shock to the yield curve used in the simulation model, net interest income for United is estimated to increase by 1.73% over one year as compared to an increase of 1.71% at December 31, 2007. A 200 basis point immediate, sustained upward shock in the yield curve would increase net interest income by an estimated 3.69% over one year as of September 30, 2008, as compared to an increase of 2.37% as of December 31, 2007. A 100 basis point immediate, sustained downward shock in the yield curve would decrease net interest income by an estimated 1.44% over one year as of September 30, 2008, as compared to a decrease of 0.60% as of December 31, 2007. A 200 basis point immediate, sustained downward shock in the yield curve would decrease net interest income by an estimated 7.72% over one year as compared to a decrease of 3.33% over one year as of December 31, 2007.

This analysis does not include the potential increased refinancing activities, which should lessen the negative impact on net income from falling rates. While it is unlikely market rates would immediately move 100 or 200 basis points upward or downward on a sustained basis, this is another tool used by management and the Board of Directors to gauge interest rate risk. All of these estimated changes in net interest income are and were within the policy guidelines established by the Board of Directors.

To further aid in interest rate management, United's subsidiary banks are members of the Federal Home Loan Bank (FHLB). The use of FHLB advances provides United with a low risk means of matching maturities of earning assets and interest-bearing funds to achieve a desired interest rate spread over the life of the earning assets. In addition, United uses credit with large regional banks and trust preferred securities to provide funding.

As part of its interest rate risk management strategy, United may use derivative instruments to protect against adverse price or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives commonly consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. Interest rate swaps obligate two parties to exchange one or more payments generally calculated with reference to a fixed or variable rate of interest applied to the notional amount. United accounts for its derivative activities in accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. During the year of 2007, United realized a net loss of \$8.11 million in connection with the termination of interest rate swaps. This was done to improve future earnings.

During 1999, to better manage risk, United sold fixed-rate residential mortgage loans in a securitization

**Table of Contents**

transaction. In that securitization, United retained a subordinated interest that represented United's right to future cash flows arising after third party investors in the securitization trust have received the return for which they contracted. United does not receive annual servicing fees from this securitization because the loans are serviced by an independent third-party. The investors and the securitization trust have no recourse to United's other assets for failure of debtors to pay when due; however, United's retained interests are subordinate to investors' interests. The book value and fair value of the subordinated interest are subject to credit, prepayment, and interest rate risks on the underlying fixed-rate residential mortgage loans in the securitization.

At the date of securitization, key economic assumptions used in measuring the fair value of the subordinated interest were as follows: a weighted average life of 5.3 years, expected cumulative default rate of 15%, and residual cash flows discount rates of 8% to 18%. At September 30, 2008 and December 31, 2007, the fair values of the subordinated interest and the cost of the available for sale securities was zero.

At September 30, 2008, the principal balances of the residential mortgage loans held in the securitization trust were approximately \$6.2 million. Principal amounts owed to third party investors and to United in the securitization were approximately \$2.3 million and \$3.9 million, respectively, at September 30, 2008. The weighted average term to maturity of the underlying mortgages approximated 9.1 years as of September 30, 2008. During the three and nine months ended September 30, 2008, United received cash of \$405 thousand and \$1.50 million, respectively, from its subordinated interest in the securitization.

The amount of future cash flows from United's subordinated interest is highly dependent upon future prepayments and defaults. Accordingly, the amount and timing of future cash flows to United is uncertain at this time.

The following table presents quantitative information about delinquencies, net credit losses, and components of the underlying securitized fixed-rate residential mortgage loans:

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Total principal amount of loans	\$ 6,158	\$ 7,393
Principal amount of loans 60 days or more past due	128	86
Year-to-date average balances	6,799	8,817
Year-to-date net credit (recoveries) losses	(208)	(66)

**Extension Risk**

A key feature of most mortgage loans is the ability of the borrower to repay principal earlier than scheduled. This is called a prepayment. Prepayments arise primarily due to sale of the underlying property, refinancing, or foreclosure. In general, declining interest rates tend to increase prepayments, and rising interest rates tend to slow prepayments. Like other fixed-income securities, when interest rates rise, the value of mortgage-related securities generally decline. The rate of prepayments on underlying mortgages will affect the price and volatility of mortgage-related securities and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. If interest rates rise, United's holdings of mortgage-related securities may experience reduced returns if the borrowers of the underlying mortgages pay off their

## **Table of Contents**

mortgages later than anticipated. This is generally referred to as extension risk.

At September 30, 2008, United's mortgage related securities portfolio had an amortized cost of \$891 million, of which approximately \$665 million or 75% were fixed rate collateralized mortgage obligations (CMOs). These fixed rate CMOs consisted primarily of planned amortization class (PACs), sequential-pay and accretion directed (VADMs) bonds having an average life of approximately 2.6 years and a weighted average yield of 4.91%, under current projected prepayment assumptions. These securities are expected to have very little extension risk in a rising rate environment. Current models show that given an immediate, sustained upward shock of 300 basis points, the average life of these securities would only extend to 2.9 years. The projected price decline of the fixed rate CMO portfolio in rates up 300 basis points would be 7.12%, less than the price decline of a 3 year treasury note. By comparison, the price decline of a 30-year current coupon mortgage backed security (MBS) in rates higher by 300 basis points would be approximately 19%.

United had approximately \$114 million in 15-year mortgage backed securities with a projected yield of 4.83% and a projected average life of 4.1 years as of September 30, 2008. This portfolio consisted of seasoned 15-year mortgage paper with a weighted average loan age (WALA) of over 3 years and a weighted average maturity (WAM) of 11.3 years.

United had approximately \$33 million in 20-year mortgage backed securities with a projected yield of 4.79% and a projected average life of 5.5 years on September 30, 2008. This portfolio consisted of seasoned 20-year mortgage paper with a weighted average loan age (WALA) of 4.7 years and a weighted average maturity (WAM) of 14.9 years. United had approximately \$15 million in 30-year mortgage backed securities with a projected yield of 6.52% and a projected average life of 5.8 years on September 30, 2008. This portfolio consisted of seasoned 30-year mortgage paper with a weighted average loan age (WALA) of over 8.9 years and a weighted average maturity (WAM) of 19.3 years.

The remaining 7% of the mortgage related securities portfolio at September 30, 2008, included adjustable rate securities (ARMs), balloon securities, and 10-year mortgage backed pass-through securities.

### **Item 4. CONTROLS AND PROCEDURES**

As of September 30, 2008, an evaluation was performed under the supervision of and with the participation of United's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of United's disclosure controls and procedures. Based on that evaluation, United's management, including the CEO and CFO, concluded that United's disclosure controls and procedures as of September 30, 2008 were effective in ensuring that information required to be disclosed in the Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time period required by the Securities and Exchange Commission's rules and forms. There have been no changes in United's internal control over financial reporting that occurred during the quarter ended September 30, 2008, or in other factors that have materially affected or are reasonably likely to materially affect United's internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

In the normal course of business, United and its subsidiaries are currently involved in various legal proceedings. Management is vigorously pursuing all its legal and factual defenses and, after consultation with legal counsel, believes that all such litigation will be resolved with no material effect on United's financial position.

**Item 1A. RISK FACTORS**

In addition to the other information set forth in this report, please refer to United's Annual Report on Form 10-K for the year ended December 31, 2007 for disclosures with respect to United's risk factors which could materially affect United's business, financial condition or future results. The risks described in the Annual Report on Form 10-K are not the only risks facing United. Additional risks and uncertainties not currently known to United or that United currently deems to be immaterial also may materially adversely affect United's business, financial condition and/or operating results. There are no material changes from the risk factors disclosed in United's Annual Report on Form 10-K for the year ended, December 31, 2007.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There have been no United equity securities sales during the first nine months of 2008 that were not registered. The table below includes certain information regarding United's purchase of its common shares during the quarter ended September 30, 2008:

Period	Total Number of Shares Purchased		Total Number of Shares Purchased as Part of Publicly Announced Plans (3)		Maximum Number of Shares that May Yet be Purchased Under the Plans (3)
	(1)	(2)	Average Price Paid per Share		
7/01 7/31/2008		30	\$27.98		322,200
8/01 8/31/2008		5,475	\$22.99		322,200
9/01 9/30/2008		2,392	\$27.04		322,200
Total		7,897	\$24.24		

- (1) Includes shares exchanged in connection with the exercise of stock options under United's stock option plans. Shares are purchased pursuant to the terms of the applicable stock



option plan and  
not pursuant to a  
publicly  
announced stock  
repurchase plan.  
For the three  
months ended  
September 30,  
2008, no shares  
were exchanged  
by participants  
in United's stock  
option plans.

**Table of Contents**

- (2) Includes shares purchased in open market transactions by United for a rabbi trust to provide payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries. For the three months ended September 30, 2008, the following shares were purchased for the deferred compensation plan: July 2008 30 shares at an average price of \$27.98; August 2008 5,475 shares at an average price of \$22.99; and September 2008 2,392 shares at an average price of \$27.04.
- (3) In May of 2006, United's Board of Directors approved a repurchase plan to repurchase up to 1.7 million shares of United's common stock on the open market (the 2006 Plan). The timing, price and quantity of purchases under the plan are at the discretion of management and the plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**Item 5. OTHER INFORMATION**

(a) None.

(b) No changes were made to the procedures by which security holders may recommend nominees to United's Board of Directors.

**Item 6. EXHIBITS**

Exhibits required by Item 601 of Regulation S-K

Exhibit 3.1 Articles of Incorporation

Exhibit 3.2 Bylaws

Exhibit 31.1 Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer

Exhibit 31.2 Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer

**Table of Contents**

**SIGNATURES**

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

**UNITED BANKSHARES, INC.**

(Registrant)

Date: November 5, 2008

/s/ Richard M. Adams

Richard M. Adams, Chairman of the Board  
and Chief Executive Officer

Date: November 5, 2008

/s/ Steven E. Wilson

Steven E. Wilson, Executive  
Vice President, Treasurer,  
Secretary and Chief Financial Officer

56

---

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>	<b>Page Number</b>
3.1	Articles of Incorporation	(a)
3.2	Bylaws	(b)
31.1	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer	59
31.2	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer	60
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer	61
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer	62

**Footnotes:**

- (a) Incorporated by reference to Exhibits to the 1989 Form 10-K of United Bankshares, Inc., File No. 0-13322)
- (b) Incorporated by reference to Exhibits to the 1990 Form 10-K of United Bankshares, Inc., File No. 0-13322)