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

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

Or

o **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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 o No þ

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

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.

Table of Contents

CONSOLIDATED BALANCE SHEETS
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except par value)	September 30 2008 (Unaudited)	December 31 2007 (Note 1)
Assets		
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
TOTAL ASSETS	$ 8,095,553	$ 7,994,739
Liabilities		
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

Accrued expenses and other liabilities	69,044	65,277
TOTAL LIABILITIES	7,322,444	7,233,540
Shareholders Equity		
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)
TOTAL SHAREHOLDERS EQUITY	773,109	761,199
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 8,095,553	$ 7,994,739

See notes to consolidated unaudited financial statements.

4

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share data)	Three Months Ended September 30 2008	Three Months Ended September 30 2007	Nine Months Ended September 30 2008	Nine Months Ended September 30 2007
Interest income				
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
Interest expense				
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
Other income				
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				

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

See notes to consolidated unaudited financial statements.

Table of Contents

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)
UNITED BANKSHARES, INC. AND SUBSIDIARIES

	Nine Months Ended September 30, 2008						
	Common Stock				**Accumulated Other Comprehensive Income**		**Total Shareholders**
(Dollars in thousands, except per share data)	**Shares**	**Par Value**	**Surplus**	**Retained Earnings**	**(Loss)**	**Treasury Stock**	**Equity**
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

Table of Contents

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

	Nine Months Ended September 30	
(Dollars in thousands)	**2008**	**2007**
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 84,222	$ 67,820
INVESTING ACTIVITIES		
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)
FINANCING ACTIVITIES		
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.

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

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:

	September 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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:

	Less than 12 months		12 months or longer	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses
September 30, 2008				
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

	Less than 12 months		12 months or longer	
	Market Value	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
December 31, 2007				
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.

	September 30, 2008		December 31, 2007	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
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:

	September 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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

	September 30, 2008		December 31, 2007	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
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:

	September 30, 2008	December 31, 2007
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:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2008	**2007**	**2008**	**2007**
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:

	September 30, 2008	December 31, 2007
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:

	As of September 30, 2008		
	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

	As of December 31, 2007		
	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:

Year	Amount
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:

Year	**Amount**
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 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

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

Derivative Instruments
September 30, 2008

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

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:

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

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:

		Fair Value Measurements at September 30, 2008 Using		
Description	**Balance as of September 30, 2008**	**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:

	Available-for-sale securities
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

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.

		Carrying value at September 30, 2008			
Description	**Balance as of September 30, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**YTD Losses**
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:

	Nine Months Ended September 30, 2008			
			Weighted Average	
	Shares	Aggregate Intrinsic Value	Remaining Contractual Term (Yrs.)	Exercise Price
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:

	Shares	Weighted-Average Grant Date Fair Value Per Share	
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:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	**2008**	**2007**	**2008**	**2007**
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:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	2008	2007	2008	2007
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

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:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Basic				
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
Diluted				
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 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 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:

(Dollars in thousands)	September 30 2008	December 31 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:

(Dollars In thousands)	September 30 2008	December 31 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: