UNITED BANKSHARES INC/WV
Form 10-Q
August 04, 2005

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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 June 30, 2005

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 (State or other jurisdiction of incorporation or organization)	**55-0641179** (I.R.S. Employer Identification No.)
300 United Center **500 Virginia Street, East** **Charleston, West Virginia** (Address of Principal Executive Offices)	**25301** 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 an accelerated filer (as defined in Rule 12b-2 of the Act.) **Yes þ No o**

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; **42,428,191** shares outstanding as of **July 31, 2005**.

UNITED BANKSHARES, INC. AND SUBSIDIARIES
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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

The June 30, 2005 and December 31, 2004, consolidated balance sheets of United Bankshares, Inc. and Subsidiaries, the related consolidated statements of income for the three and six months ended June 30, 2005 and 2004, the related consolidated statement of changes in shareholders equity for the six months ended June 30, 2005, the related condensed consolidated statements of cash flows for the six months ended June 30, 2005 and 2004, and the notes to consolidated financial statements appear on the following pages.

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CONSOLIDATED BALANCE SHEETS
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except par value)	June 30 2005 (Unaudited)	December 31 2004 (Note 1)
Assets		
Cash and due from banks	$ 148,548	$ 132,306
Interest-bearing deposits with other banks	56,232	21,159
Federal funds sold	5,505	
Total cash and cash equivalents	210,285	153,465
Securities available for sale at estimated fair value (amortized cost-$1,208,193 at June 30, 2005 and $1,266,931 at December 31, 2004)	1,210,780	1,277,160
Securities held to maturity (estimated fair value-$240,229 at June 30, 2005 and $241,592 at December 31, 2004)	231,627	233,282
Loans held for sale	3,232	3,981
Loans	4,529,049	4,424,702
Less: Unearned income	(6,472)	(6,426)
Loans net of unearned income	4,522,577	4,418,276
Less: Allowance for loan losses	(43,585)	(43,365)
Net loans	4,478,992	4,374,911
Bank premises and equipment	40,503	41,564
Goodwill	166,852	166,926
Accrued interest receivable	28,008	27,371
Other assets	158,421	157,311
TOTAL ASSETS	$6,528,700	$6,435,971
Liabilities		
Deposits:		
Noninterest-bearing	$ 964,293	$ 885,339
Interest-bearing	3,549,648	3,412,224
Total deposits	4,513,941	4,297,563
Borrowings:		
Federal funds purchased	61,520	131,106
Securities sold under agreements to repurchase	555,035	546,425
Federal Home Loan Bank borrowings	607,729	669,322
Other short-term borrowings	3,468	4,427
Other long-term borrowings	89,173	89,433
Allowance for lending-related commitments	8,048	7,988
Accrued expenses and other liabilities	53,273	58,200

TOTAL LIABILITIES	5,892,187	5,804,464
Shareholders Equity		
Common stock, $2.50 par value; Authorized-100,000,000 shares; issued-44,320,832 at June 30, 2005 and December 31, 2004, including 1,803,235 and 1,312,387 shares in treasury at June 30, 2005 and December 31, 2004, respectively	110,802	110,802
Surplus	99,083	99,773
Retained earnings	486,457	459,393
Accumulated other comprehensive (loss) income	(982)	3,739
Treasury stock, at cost	(58,847)	(42,200)
TOTAL SHAREHOLDERS EQUITY	636,513	631,507
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$6,528,700	$6,435,971

See notes to consolidated unaudited financial statements.

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

(Dollars in thousands, except per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Interest income				
Interest and fees on loans	$66,024	$55,227	$129,090	$110,786
Interest on federal funds sold and other short-term investments	220	108	346	184
Interest and dividends on securities:				
Taxable	13,653	13,523	27,659	26,985
Tax-exempt	2,282	2,102	4,360	4,156
Total interest income	82,179	70,960	161,455	142,111
Interest expense				
Interest on deposits	16,633	11,284	31,320	22,191
Interest on short-term borrowings	4,013	1,662	7,427	3,241
Interest on long-term borrowings	8,075	8,769	16,260	17,683
Total interest expense	28,721	21,715	55,007	43,115
Net interest income	53,458	49,245	106,448	98,996
Provision for credit losses	504	539	1,615	1,896
Net interest income after provision for credit losses	52,954	48,706	104,833	97,100
Other income				
Fees from trust and brokerage services	2,741	2,663	5,499	5,233
Service charges, commissions, and fees	8,517	9,056	16,339	17,539
Income from bank-owned life insurance	1,459	1,018	2,423	2,017
Income from mortgage banking operations	227	242	353	410
Security gains	58	106	982	820
Other income	357	616	682	1,245
Total other income	13,359	13,701	26,278	27,264
Other expense				
Salaries and employee benefits	14,921	14,175	28,987	28,286
Net occupancy expense	3,051	3,033	6,146	6,246
Equipment expense	1,673	1,870	3,313	3,850
Data processing expense	1,535	1,144	2,868	2,212
Other expense	9,397	9,251	18,004	18,503
Total other expense	30,577	29,473	59,318	59,097
	35,736	32,934	71,793	65,267

Income from continuing operations before income taxes				
Income taxes	11,222	10,477	22,519	20,203
Income from continuing operations	24,514	22,457	49,274	45,064
Income from discontinued operations before income taxes		2,445		3,688
Income taxes		688		1,034
Income from discontinued operations		1,757		2,654
Net income	$24,514	$24,214	$ 49,274	$ 47,718

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

(Dollars in thousands, except per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2005	**2004**	**2005**	**2004**
Earnings per common share from continuing operations:				
Basic	$ 0.57	$ 0.52	$ 1.15	$ 1.03
Diluted	$ 0.57	$ 0.51	$ 1.14	$ 1.02
Earnings per common share from discontinued operations:				
Basic		$ 0.04		$ 0.06
Diluted		$ 0.04		$ 0.06
Earnings per common share:				
Basic	$ 0.57	$ 0.56	$ 1.15	$ 1.09
Diluted	$ 0.57	$ 0.55	$ 1.14	$ 1.08
Dividends per common share	$ 0.26	$ 0.25	$ 0.52	$ 0.50
Average outstanding shares:				
Basic	42,659,573	43,511,510	42,779,299	43,595,898
Diluted	43,121,982	44,005,011	43,269,361	44,131,285

See notes to consolidated unaudited financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)
UNITED BANKSHARES, INC. AND SUBSIDIARIES
(Dollars in thousands, except per share data)

	Six Months Ended June 30, 2005						
	Common Stock				Accumulated Other Comprehensive Income		Total
	Shares	Par Value	Surplus	Retained Earnings	(Loss)	Treasury Stock	Shareholders Equity
Balance at January 1, 2005	44,320,832	$110,802	$99,773	$459,393	$ 3,739	($42,200)	$631,507
Comprehensive income:							
Net income				49,274			49,274
Other comprehensive income, net of tax:							
Unrealized loss on securities of $4,330 net of reclassification adjustment for gains included in net income of $638					(4,968)		(4,968)
Accretion of the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio					247		247
Total comprehensive income							44,553
Purchase of treasury stock (551,680 shares)						(18,626)	(18,626)
Cash dividends ($0.52 per share)				(22,210)			(22,210)
Common stock options exercised			(690)			1,979	1,289

(60,832 shares)

Balance at June 30, 2005	44,320,832	$110,802	$99,083	$486,457	($982)	($58,847)	$636,513

See notes to consolidated unaudited financial statements

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

	Six Months Ended June 30	
	2005	**2004**
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES OF CONTINUING OPERATIONS	$ 52,977	$ (6,781)
INVESTING ACTIVITIES		
Proceeds from maturities and calls of securities held to maturity	2,397	12,834
Purchases of securities held to maturity	(453)	(2,645)
Proceeds from sales of securities available for sale	192,021	214,146
Proceeds from maturities and calls of securities available for sale	100,842	189,293
Purchases of securities available for sale	(236,035)	(304,228)
Net purchases of bank-owned life insurance		(13,826)
Net purchases of bank premises and equipment	(1,360)	(1,813)
Net change in loans	(106,615)	(221,804)
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(49,203)	(128,043)
FINANCING ACTIVITIES		
Cash dividends paid	(22,338)	(21,831)
Acquisition of treasury stock	(18,626)	(19,238)
Proceeds from exercise of stock options	1,231	2,996
Repayment of long-term Federal Home Loan Bank borrowings	(126,664)	(44,000)
Proceeds from long-term Federal Home Loan Bank borrowings	150,000	
Changes in:		
Deposits	216,378	174,783
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	(146,935)	11,124
NET CASH PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	53,046	103,834
NET CASH USED IN DISCONTINUED OPERATIONS		(345)
Increase (Decrease) in cash and cash equivalents	56,820	(31,335)
Cash and cash equivalents at beginning of year, continuing operations	153,465	249,118
Cash and cash equivalents at beginning of year, discontinued operations		5,823

Cash and cash equivalents at beginning of year	153,465	254,941
Cash and cash equivalents at end of period, continuing operations	$ 210,285	$ 218,128
Cash and cash equivalents at end of period, discontinued operations		5,478
Cash and cash equivalents at end of period	$ 210,285	$ 223,606

*See notes to consolidated unaudited financial statements***.**

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 June 30, 2005 and 2004 and for the three-month and six-month periods then ended have not been audited. The consolidated balance sheet as of December 31, 2004 has been extracted from the audited financial statements included in United s 2004 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 2004 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.

New Accounting Standards: In June 2005, the Financial Accounting Standards Board (FASB) issued Statement No. 154 (SFAS 154), Accounting Changes and Error Corrections , a replacement of APB No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements . SFAS 154 applies to all voluntary changes in accounting principle and changes the requirements for accounting for, and reporting of, a change in accounting principle. Previously, most voluntary changes in accounting principles were required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of FAS 154 is not expected to have a material impact on United s consolidated financial statements.

United has stock option plans for certain employees that are accounted for under the intrinsic value method. Because the exercise price at the date of the grant is equal to the market value of the stock, no compensation expense is recognized. In December 2004, FASB enacted Statement of Financial Accounting Standards 123 revised 2004 (SFAS 123R), Share-Based Payment which replaces Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation and supersedes

APB Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees and amends FASB Statement No. 95, Statement of Cash Flows. SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value based method and the recording of such expense in our consolidated statements of income. In April 2005, the Securities and Exchange Commission (SEC) adopted a new rule amending the adoption date of SFAS 123R. Based on this new rule, registrants that are not small business issuers must adopt SFAS 123R no later than the beginning of the first fiscal year beginning after June 15, 2005. SFAS 123R may be adopted in one of two ways the modified prospective transition method or the modified retrospective transition method. United expects to adopt SFAS 123R using the modified prospective transition method. Prior to 2004, United disclosed pro forma compensation expense quarterly and annually by calculating the stock option grants fair value using the Black-Scholes model and disclosing the impact on net income and net income per share. For options granted in 2004, United used a binomial lattice model to value the options granted and determine the pro forma compensation expense presented in the table below. United intends to use this binomial lattice model to value future grants. SFAS 123R defines a lattice model 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.

United, as does the FASB, believes the use of a binomial lattice model for option valuation is capable of more fully reflecting certain characteristics of employee stock options compared to the Black- Scholes options pricing model. For United, the difference in fair values calculated under each option pricing model is immaterial. The table below reflects the estimated impact the fair value method would have had on United s net income and net income per share if SFAS 123R had been in effect for the three and six months ended June 30, 2005 and 2004. United will continue to evaluate the method of adoption and will begin to apply SFAS 123R as of the interim reporting period ending March 31, 2006, as required. United does not expect the adoption to have a material impact on its consolidated statements of income and net income per share.

The following pro forma disclosures present United s consolidated net income and diluted earnings per share, determined as if United had recognized compensation expense for its employee stock options based on the estimated fair value of the option at the date of grant amortized over the vesting period of the option:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2005	**2004**	**2005**	**2004**
Net Income, as reported	$24,514	$24,214	$49,274	$47,718
Less pro forma expense related to options granted, net of tax	(300)	(249)	(601)	(504)
Pro forma net income	$24,214	$23,965	$48,673	$47,214
Pro forma net income per share:				
Basic as reported	$ 0.57	$ 0.56	$ 1.15	$ 1.09
Basic pro forma	$ 0.57	$ 0.55	$ 1.14	$ 1.08
Diluted as reported	$ 0.57	$ 0.55	$ 1.14	$ 1.08
Diluted pro forma	$ 0.56	$ 0.54	$ 1.12	$ 1.07

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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 current standards. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. 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 did not recognize any such amounts in operating cash flows for the six months ended June 30, 2005 and 2004.

In March of 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107), Share-Based Payment. SAB 107 provides guidance regarding the application of SFAS 123R including option valuation methods, the accounting for income tax effects of share-based payment arrangements upon the adoption of SFAS 123R, and the required disclosures within filings made with the SEC related to the accounting for share-based payment transactions. United will provide SAB 107 required disclosures beginning in the interim reporting period ending March 31, 2006, as required.

2. DISCONTINUED OPERATIONS

On July 7, 2004, United closed the sale of its wholly owned mortgage banking subsidiary, George Mason Mortgage, LLC (Mason Mortgage) to Cardinal Financial Corporation (Cardinal) of McLean, Virginia for an amount equivalent to Mason Mortgage s net worth plus cash of $17 million in exchange for all of the outstanding membership interests in Mason Mortgage. Mason Mortgage, which was previously reported as a separate segment, is presented as discontinued operations for all periods presented in these financial statements.

The results of Mason Mortgage are presented as discontinued operations in a separate category on the income statement following the results from continuing operations. All assets and liabilities of Mason Mortgage were sold as of July 7, 2004 and thus, were not included in the June 30, 2005 or December 31, 2004 consolidated balance sheets. No income from discontinued operations was recorded for the quarter and six months ended June 30, 2005 as the sale of Mason Mortgage occurred in 2004. Income from discontinued operations for the quarter and six months ended June 30, 2004 is presented on the following page:

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Statement of Income for Discontinued Operations

	Three Months Ended June 30, 2004	Six Months Ended June 30, 2004
Interest and fees on loans	$ 3,927	$ 6,850
Interest expense	971	1,543
Net interest income	2,956	5,307
Other income:		
Service charges, commissions, and fees	351	565
Income from mortgage banking operations	8,899	15,179
Total other income	9,250	15,744
Other expense:		
Salaries and employee benefits expense	7,749	13,574
Net occupancy expense	496	985
Other noninterest expense	1,516	2,804
Total other expense	9,761	17,363
Income from discontinued operations before income taxes	2,445	3,688
Income taxes	688	1,034
Income from discontinued operations	$ 1,757	$ 2,654

3. INVESTMENT SECURITIES

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

	June 30, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 7,438	$ 9	$ 46	$ 7,401
State and political subdivisions	80,024	2,388	128	82,284
Mortgage-backed securities	932,106	6,246	9,409	928,943
Marketable equity securities	7,239	344	94	7,489
Other	181,386	3,459	182	184,663

Total	$1,208,193	$12,446	$9,859	$1,210,780

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	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 13,395	$ 8	$ 20	$ 13,383
State and political subdivisions	67,054	2,387	91	69,350
Mortgage-backed securities	986,328	9,051	6,251	989,128
Marketable equity securities	8,597	1,500	39	10,058
Other	191,557	3,844	160	195,241
Total	$1,266,931	$16,790	$6,561	$1,277,160

In March 2004, the Financial Accounting Standards Board (FASB) ratified the consensus reached by the Emerging Issues Task Force (EITF) regarding Issue 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1). The issue provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires certain disclosures with respect to these investments. The FASB delayed the guidance in EITF 03-1 regarding measurement and recognition of other-than-temporary impairment. In June 2005, the FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment and directed the staff to issue proposed FASB-directed Staff Position (FSP) EITF 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, as final. The final FSP will supersede EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, and EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value.

The final FSP (retitled FSP FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments) will replace the guidance set forth in paragraphs 10 through 18 of EITF 03-1 with references to existing other-than-temporary impairment guidance, such as FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities , SEC Staff Accounting Bulletin No. 59, Accounting for Noncurrent Marketable Equity Securities , and APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. FSP FAS 115-1 will codify the guidance set forth in EITF Topic D-44 and clarify that an investor should recognize an impairment loss no later than when the impairment is deemed other than temporary, even if a decision to sell has not been made.

FASB decided that FSP FAS 115-1 would be effective for other-than-temporary impairment analysis conducted in periods beginning after September 15, 2005. United does not anticipate adoption of FSP FAS 115-1 will have a significant impact upon its consolidated financial statements.

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Provided below is a summary of securities available-for-sale which were in an unrealized loss position at June 30, 2005 and December 31, 2004:

	Less than 12 months		12 months or longer	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses
June 30, 2005				
Treasuries and agencies	$ 3,163	$ 24	$ 982	$ 22
State and political	5,919	77	3,410	51
Mortgage-backed	474,320	4,269	332,119	5,140
Marketable equity securities			865	94
Other	6,676	24	18,321	158
Total	$490,078	$4,394	$355,697	$5,465
December 31, 2004				
Treasuries and agencies	$ 10,465	$ 20		
State and political	5,442	72	$ 1,247	$ 19
Mortgage-backed	479,144	4,339	147,170	1,912
Marketable equity securities	177	23	748	16
Other	20,619	126	4,929	34
Total	$515,847	$4,580	$154,094	$1,981

Gross unrealized losses on available for sale securities were $9,859 at June 30, 2005. Securities in a continuous unrealized loss position for twelve months or more consisted primarily of mortgage-backed and trust preferred securities. The unrealized loss on the mortgage-backed securities portfolio relates primarily to AAA securities issued by FNMA, FHLMC, GNMA, and various other private label issuers. Management does not believe any individual unrealized loss as of June 30, 2005 is other than temporarily impaired. United believes the decline in value is attributable to changes in market interest rates and not the credit quality of the issuers. United has the ability to hold these securities until such time as the value recovers or the securities mature.

The amortized cost and estimated fair value of securities available for sale at June 30, 2005 and December 31, 2004 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations without penalties.

	June 30, 2005		December 31, 2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 4,091	$ 4,095	$ 12,420	$ 12,418
Due after one year through five years	45,937	49,601	17,241	21,747
Due after five years through ten years	296,003	294,162	299,627	299,395
Due after ten years	854,923	855,433	929,046	933,542
Marketable equity securities	7,239	7,489	8,597	10,058
Total	$1,208,193	$1,210,780	$1,266,931	$1,277,160

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

	June 30, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 11,837	$1,518		$ 13,355
State and political subdivisions	69,683	2,492		72,175
Mortgage-backed securities	498	25		523
Other	149,609	5,714	$1,147	154,176
Total	$231,627	$9,749	$1,147	$240,229

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 11,886	$ 1,220		$ 13,106
State and political subdivisions	71,929	2,705	$ 4	74,630
Mortgage-backed securities	588	35		623
Other	148,879	6,926	2,572	153,233
Total	$233,282	$10,886	$2,576	$241,592

The amortized cost and estimated fair value of debt securities held to maturity at June 30, 2005 and December 31, 2004 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations without penalties. There were no sales of held to maturity securities.

	June 30, 2005		December 31, 2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 11,950	$ 12,142	$ 1,254	$ 1,261
Due after one year through five years	42,172	44,752	47,354	50,840
Due after five years through ten years	16,161	16,868	23,841	24,803
Due after ten years	161,344	166,467	160,833	164,688
Total	$231,627	$240,229	$233,282	$241,592

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 $1,021,730 and $1,034,573 at June 30, 2005 and December 31, 2004, respectively.

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4. LOANS

Major classifications of loans are as follows:

	June 30, 2005	December 31, 2004
Commercial, financial and agricultural	$ 904,938	$ 864,511
Real estate:		
Single-family residential	1,696,215	1,663,198
Commercial	1,091,648	1,063,554
Construction	338,677	303,516
Other	103,864	123,165
Installment	393,707	406,758
Total gross loans	$4,529,049	$4,424,702

The table above does not include loans held for sale of $3,232 and $3,981 at June 30, 2005 and December 31, 2004, 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 $113,649 and $109,126 at June 30, 2005 and December 31, 2004, 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 $8,048 and $7,988 at June 30, 2005 and December 31, 2004, respectively, is separately identified on the balance sheet and is included in other liabilities. 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

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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 June 30		Six Months Ended June 30	
	2005	**2004**	**2005**	**2004**
Balance at beginning of period	$51,424	$51,351	$51,353	$51,309
Provision	504	539	1,615	1,896
	51,928	51,890	52,968	53,205
Loans charged-off	(1,039)	(1,076)	(2,577)	(2,838)
Less: Recoveries	744	565	1,242	1,012
Net Charge-offs	(295)	(511)	(1,335)	(1,826)
Balance at end of period	$51,633	$51,379	$51,633	$51,379

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 less estimated selling costs.
Nonperforming assets are summarized as follows:

	June 30, 2005	**December 31, 2004**
Nonaccrual loans	$ 9,510	$ 6,352
Loans past due 90 days or more and still accruing interest	5,955	4,425
Total nonperforming loans	15,465	10,777
Other real estate owned	2,410	3,692
Total nonperforming assets	$17,875	$ 14,469

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 June 30, 2005, the recorded investment in loans that were considered to be impaired was $17,190 (of which $9,510 were on

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a nonaccrual basis). Included in this amount is $6,490 of impaired loans for which the related allowance for credit losses is $1,238 and $10,700 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, 2004, the recorded investment in loans that were considered to be impaired was $10,348 (of which $6,352 were on a nonaccrual basis). Included in this amount was $3,914 of impaired loans for which the related allowance for credit losses was $997, and $6,434 of impaired loans that did not have an allowance for credit losses. The average recorded investment in impaired loans during the six months ended June 30, 2005 and for the year ended December 31, 2004 was approximately $13,144 and $15,709, respectively.

United recognized interest income on impaired loans of approximately $90 and $196 for the quarter and six months ended June 30, 2005, respectively, and $67 and $254 for the quarter and six months ended June 30, 2004, 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 $185 and $423 for the quarter and six months ended June 30, 2005, respectively, and $156 and $465 for the quarter and six months ended June 30, 2004, respectively.

7. INTANGIBLE ASSETS

Total goodwill was $166,852 and $166,926 as of June 30, 2005 and December 31, 2004, respectively.

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

	As of June 30, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit intangible assets	$19,890	($14,268)	$ 5,622
Goodwill not subject to amortization			$166,852

	As of December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit intangible assets	$19,890	($13,071)	$ 6,819
Goodwill not subject to amortization			$166,926

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United incurred amortization expense of $586 and $1,197 for the quarter and six months ended June 30, 2005, respectively, and $683 and $1,433 for the quarter and six months ended June 30, 2004, respectively, related to intangible assets. The following table sets forth the anticipated amortization expense for intangible assets for each of the next five years:

Year	Amount
2005	$2,278
2006	1,871
2007	1,462
2008	832
2009	303
Thereafter	73

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 $200,000. 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 June 30, 2005, federal funds purchased were $61,520 while securities sold under agreements to repurchase were $555,035.

United has available funds of $70,000 with two unrelated financial institutions to provide for general liquidity needs. Both are unsecured revolving line of credits. 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 June 30, 2005, 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 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 June 30, 2005, United Bank (VA) had an outstanding balance of $3,468 and had additional funding available of $1,532.

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 June 30, 2005, United had an unused borrowing amount of approximately $1,266,667 available subject to delivery of collateral after certain trigger points.

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At June 30, 2005, $607,729 of FHLB advances with a weighted-average interest rate of 5.03% is scheduled to mature within the next twelve years. The scheduled maturities of borrowings are as follows:

Year	Amount
2005	$140,800
2006	1,100
2007	
2008	100,497
2009 and thereafter	365,332
Total	$607,729

United has a total of seven 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 June 30, 2005 and December 31, 2004, the outstanding balances of the Debentures were $89,173 and $89,433 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.

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.

The Trust Preferred Securities currently qualify as Tier 1 capital of United for regulatory purposes. In March of 2005, the banking regulatory agencies issued guidance, which did not change the regulatory capital treatment for the Trust Preferred Securities.

On March 3, 2005, the FASB issued FIN 46R-5, Implicit Variable Interest under FASB Interpretation No. 46R, Consolidation of Variable Interest Entities (VIE). FIN 46R-5 requires a reporting enterprise to address whether a reporting enterprise has an implicit variable interest in a VIE or potential VIE when specific conditions exist. FIN 46R-5 was effective in the second quarter of 2005 and did not have a material impact on United s consolidated financial statements.

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 represent future cash requirements. United had approximately $1,643,053 and $1,618,823 of loan commitments outstanding as of June 30, 2005 and December 31, 2004, 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 $1,479 and $1,449 as of June 30, 2005 and December 31, 2004, 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 $129,651 and $140,168 as of June 30, 2005 and December 31, 2004, 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 help aid against adverse prices or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives commonly consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. United also executes derivative instruments with its commercial banking customers to facilitate its risk management strategies.

Under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , the interest rate swaps are considered fair value hedges. The swaps qualify for the shortcut method of accounting treatment because the critical terms of the hedged financial instruments (FHLB advances and fixed commercial loans) and the interest rate payments to be received on the swaps coincide and thus are effective in offsetting changes in the fair value of the hedged financial instruments over their remaining term. The fair value of the interest rate swaps is recognized on the balance sheet as either a freestanding asset or liability with a corresponding adjustment to the hedged financial instrument. Adjustments due to changes in the fair value of the interest rate swaps are recorded as corresponding adjustments to the hedged financial instruments within the asset or liability section of the balance sheet.

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The following tables 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 June 30, 2005:

Derivative Classifications and Hedging Relationships
June, 30, 2005

	Notional Amount	Derivative Asset	Derivative Liability
Derivatives Designated as Fair Value Hedges:			
Hedging Commercial Loans	$ 4,500		$ 147
Hedging FHLB Borrowings	150,000		5,000
Total	$154,500		$5,147

Derivative Instruments
June 30, 2005

	Notional Amount	Average Receive Rate	Average Pay Rate	Estimated Fair Value
Receive Fixed Swap (FHLB Borrowing)	$100,000	6.43%		$(4,870)
Pay Fixed Swap (FHLB Borrowing)	50,000		4.29%	(130)
Pay Fixed Swap (Commercial Loans)	4,500		6.70%	(147)
Total	$154,500			$(5,147)

12. 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. The associated benefits accumulated by these employees in their previous plan were assumed by United s benefit plan.

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Net periodic pension cost included the following components:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Service cost	$ 468	$ 580	$ 933	$ 1,162
Interest cost	756	706	1,504	1,411
Expected return on plan assets	(1,114)	(933)	(2,216)	(1,867)
Amortization of transition asset	(44)	(44)	(87)	(87)
Recognized net actuarial loss	170	229	338	457
Amortization of prior service cost				
Net periodic pension cost	$ 236	$ 538	$ 472	$ 1,076
Weighted-Average Assumptions:				
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected return on assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	3.25%	3.25%	3.25%	3.25%

13. COMPREHENSIVE INCOME

The components of total comprehensive income for the three and six months ended June 30, 2005 and 2004 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Net Income	$24,514	$ 24,214	$49,274	$ 47,718
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized gain (loss) on available for sale securities arising during the period	5,615	(19,304)	(4,330)	(12,510)
Less: Reclassification adjustment for gains included in net income	(37)	(69)	(638)	(533)
Accretion on the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio	124	121	247	260
Total Comprehensive Income	$30,216	$ 4,962	$44,553	$ 34,935

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14. 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 June 30		Six Months Ended June 30	
(Dollars in thousands, except per share)	**2005**	**2004**	**2005**	**2004**
Income from Continuing Operations	$ 24,514	$ 22,457	$ 49,274	$ 45,064
Income from Discontinued Operations		1,757		2,654
Net Income	$ 24,514	$ 24,214	$ 49,274	$ 47,718
Basic				
Income from Continuing Operations	$ 0.57	$ 0.52	$ 1.15	$ 1.03
Income from Discontinued Operations		0.04		0.06
Net Income	$ 0.57	$ 0.56	$ 1.15	$ 1.09
Average common shares outstanding	42,659,573	43,511,510	42,779,299	43,595,898
Diluted				
Income from Continuing Operations	$ 0.57	$ 0.51	$ 1.14	$ 1.02
Income from Discontinued Operations		0.04		0.06
Net Income	$ 0.57	$ 0.55	$ 1.14	$ 1.08
Average common shares outstanding	42,659,573	43,511,510	42,779,299	43,595,898
Equivalents from stock options	462,409	493,501	490,062	535,387
Average diluted shares outstanding	43,121,982	44,005,011	43,269,361	44,131,285

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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.

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 and the valuation of retained interests in securitized assets 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 represents management s estimate of the probable credit losses inherent in the lending portfolio. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because management s evaluation of the adequacy of the allowance for credit losses 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. 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

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

Retained interests in securitized financial assets are recorded at the their estimated fair values in securities available for sale. Since quoted market prices are generally not available for retained interests, United relies on discounted cash flow modeling techniques to estimate fair values based on the present value of future expected cash flows using management s best estimates of key assumptions credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. Because the values of the assets are sensitive to changes in these key assumptions, the valuation of retained interests is considered a critical accounting estimate. A discussion of the accounting for these securitized financial assets as well as sensitivity analyses showing how these assets value change due to adverse changes in key assumptions is presented in the Interest Rate Risk section of the Quantitative and Qualitative Disclosures about Market Risk.

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 that 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. 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.

The following is a broad overview of the financial condition and results of operations and is not intended to replace the more detailed discussion, which is presented under specific headings on the following pages.

FINANCIAL CONDITION

United s total assets as of June 30, 2005 were $6.53 billion, up $92.73 million or 1.44% from year-end 2004 primarily the result of a $104.30 million or 2.36% increase in portfolio loans. Cash and cash equivalents increased $56.82 million or 37.02%. Partially offsetting these increases was a decrease in securities available for sale of $66.38 million or 5.20%. The increase in total assets is reflected in a corresponding increase in total liabilities and shareholders equity of $87.72 million and $5.01 million, respectively, from year-end 2004. The increase in total liabilities was due mainly to growth in deposits of $216.38 million or 5.03%. Partially offsetting this increase in total liabilities were reductions of $69.59 million or 53.08% and $61.59 million or 9.20%, respectively, in federal funds purchased and Federal Home Loan Bank borrowings. The following discussion explains in more detail the changes in financial condition by major category.

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Cash and Cash Equivalents

Cash and cash equivalents increased $56.82 million or 37.02% comparing June 30, 2005 to year-end 2004. Of this total increase, cash and due from banks increased $16.24 million while interest-bearing deposits with other banks increased $35.07 million. Federal funds sold increased $5.51 million. During the first six months of 2005, net cash of $52.98 million and $53.05 million was provided by operating activities and financing activities from continuing operations, respectively. Net cash of $49.20 million was used in investing activities of continuing operations. The Consolidated Statements of Cash Flows present data on cash and cash equivalents provided and used in operating, investing and financing activities for the first six months of 2005 and 2004.

Securities

Total investment securities decreased $68.04 million or 4.50% since year-end 2004. Securities available for sale decreased $66.38 million or 5.20%. This change reflects $291.89 million in sales, maturities and calls of securities, $236.03 million in purchases and a decrease of $7.64 million in market value. Securities held to maturity were relatively flat from year-end 2004. 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 $749 thousand or 18.81% as loan sales in the secondary market exceeded loan originations during the first half of 2005. Portfolio loans, net of unearned income, increased $104.30 million or 2.36% from year-end 2004 as all major classification of loans increased except for installment and other loans secured by real estate. Since year-end 2004, commercial loans (not secured by real estate) increased $40.43 million or 4.68%, construction loans increased $35.16 million or 11.58%, single-family residential real estate loans increased $33.02 million or 1.99% and commercial real estate loans increased $28.09 million or 2.64%. Installment loans decreased $13.05 million or 3.21% and other real estate secured loans decreased $19.30 million or 15.67% from year-end 2004. For a summary of major classifications of loans, see Note 4 to the unaudited Notes to Consolidated Financial Statements.

Other Assets

Other assets were relatively flat from year-end 2004, increasing only $1.11 million or less than 1%. This slight increase was primarily due to a $2.42 million increase in the cash surrender value of bank owned life insurance policies and a $2.12 million increase in deferred tax assets related to the decline in market value of available for sale securities. Partially offsetting these increases were declines of $1.28 million and $1.20 million, respectively, in the levels of other real estate owned and core deposit intangibles.

Deposits

Total deposits at June 30, 2005 grew $216.38 million or 5.03% since year-end 2004. In terms of composition, noninterest-bearing deposits increased $78.95 million or 8.92% while interest-bearing deposits

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increased $137.42 million or 4.03% from December 31, 2004. The increase in noninterest-bearing deposits was due mainly to a $40.53 million or 9.72% increase in commercial demand deposits. The increase in interest-bearing deposits was due primarily to growth of $86.25 million or 17.43% in certificate accounts (CDs) over $100,000 due to higher interest rates. Brokered deposits accounted for $40.42 million of this increase in CDs over $100,000.

Borrowings

Total borrowings at June 30, 2005 decreased $123.79 million or 8.59% during the first half of 2005. Since year-end 2004, federal funds purchased and FHLB borrowings decreased $69.59 million or 53.08% and $61.59 million or 9.20%, respectively. Securities sold under agreements to repurchase increased $8.61 million or 1.58%. For a further discussion of borrowings see Notes 8 and 9 to the unaudited Notes to Consolidated Financial Statements.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at June 30, 2005 declined $4.93 million or 8.47% from year-end 2004. The decrease was due mainly to a timing difference of income tax payments.

Shareholders Equity

Shareholders equity at June 30, 2005, increased $5.01 million or less than 1% from December 31, 2004 as United continued to balance capital adequacy and returns to shareholders. The slight increase in shareholders equity was due mainly to first half 2005 earnings net of dividends declared of $27.06 million. Treasury stock increased $16.65 million since year-end 2004 as treasury share repurchases exceeded stock option redemptions during the first six months of 2005. During the first six months of 2005, United repurchased 551,680 shares under a plan approved by its Board of Directors in 2004 to repurchase up to 1.775 million shares of United s common stock on the open market. Since the plan s implementation, 555,657 shares have been repurchased.

RESULTS OF OPERATIONS

Overview

As previously reported, on July 7, 2004, United consummated the sale of its wholly-owned mortgage banking subsidiary, Mason Mortgage. United will continue to focus on retail mortgage lending through its banking subsidiaries. The results of operations for Mason Mortgage are reported as income from discontinued operations. For detailed financial data and further information related to discontinued operations, refer to Note 2 of the accompanying unaudited consolidated financial statements.

The following is a detailed discussion of United s second quarter and first half 2005 results. Results for the second quarter and first half of 2004 include results from continuing and discontinued operations. For discussion purposes, information referred to on a consolidated basis combines the results of continuing and discontinued operations.

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Income from continuing operations for the second quarter and first six months of 2005 was $24.51 million and $49.27 million, respectively, up 9.16% and 9.34%, respectively, from the comparable periods in 2004. Diluted earnings per share from continuing operations were $0.57 and $1.14 for the second quarter and first six months of 2005, respectively, up 11.76% from the comparable periods in 2004. Income from continuing operations for the second quarter and first six months of 2004 totaled $22.46 million or $0.51 per share and $45.06 and $1.02 per share, respectively. No income from discontinued operations was recorded for the second quarter and first six months of 2005 because the sale of Mason Mortgage occurred in 2004. Income from discontinued operations for the second quarter and first six months ended 2004 was $1.76 million or $0.04 per share and $2.65 million or $0.06 per share, respectively.

Consolidated net income for the first six months of 2005 was $49.27 million or $1.14 per diluted share compared to $47.72 million or $1.08 per share for the first six months of 2004. These results represent a 3.26% increase in net income and a 5.56% increase in diluted earnings per share. Consolidated net income for the second quarter of 2005 was $24.51 million, an increase of 1.24% from the $24.21 million reported for the prior year second quarter. Second quarter 2005 earnings were $0.57 per diluted share, as compared to the $0.55 per share reported for the second quarter of 2004. This represents a 3.64% increase in diluted earnings per share.

United s annualized return on average assets for the first six months of 2005 was 1.56% and return on average shareholders equity was 15.60% as compared to 1.51% and 15.28% for the first six months of 2004. For the second quarter of 2005, United s annualized return on average assets was 1.55% while the return on average equity was 15.50% as compared to 1.51% and 15.38%, respectively, for the second quarter of 2004.

Consolidated tax-equivalent net interest income for the first six months of 2005 was $112.18 million, an increase of $2.08 million or 1.88% from the prior year s first six months. Consolidated tax-equivalent net interest income increased $936 thousand or 1.69% for the second quarter of 2005 as compared to the same period for 2004. The provision for credit losses was $1.62 million for the first six months of 2005 as compared to $1.90 million for the first six months of 2004. For the quarters ended June 30, 2005 and 2004, the provision for credit losses was $504 thousand and $539 thousand, respectively. Consolidated noninterest income was $26.28 million for the first six months of 2005, down $16.73 million or 38.90% when compared to the first six months of 2004. For the second quarter of 2005, consolidated noninterest income was $13.36 million, a decrease of $9.59 million or 41.79% from the second quarter of 2004. Consolidated noninterest expenses decreased $17.14 million or 22.42% for the first six months of 2005 compared to the same period in 2004. For the second quarter of 2005, consolidated noninterest expenses decreased $8.66 million or 22.07% from the second quarter of 2004. United s effective tax rate was 31.37% and 30.80% for the first six months of 2005 and 2004, and 31.40% and 31.56% for the second quarter of 2005 and 2004, respectively.

Net Interest Income

Consolidated tax-equivalent net interest income increased $936 thousand or 1.69% and $2.08 million or 1.88% for the second quarter and first six months of 2005 when compared to the same periods of 2004.

Tax-equivalent net interest income from continuing operations for the second quarter of 2005 was $56.43 million, an increase of $3.89 million or 7.41% from the second quarter of 2004. This increase in tax-equivalent net interest income from continuing operations was due mainly to a $274.96 million or 4.96%

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increase in average earning assets as average loans for the second quarter of 2005 grew $341.03 million or 8.31% over last year s second quarter. In addition, the average yield on earning assets for the second quarter of 2005 increased 54 basis points from the second quarter of 2004 as a result of higher interest rates. These increases to net interest income were partially offset by a corresponding 54 basis point increase in the cost of funds due to the higher interest rates. On a consolidated basis, the net interest margin for the second quarter of 2005 was 3.88%, an increase of 11 basis points from 3.77% in the second quarter of 2004.

On a linked-quarter basis, United s tax-equivalent net interest income from continuing operations for the second quarter of 2005 increased $671 thousand or 1.20% compared to the first quarter of 2004 due primarily to average loan growth of $45.00 million or 1.02% for the quarter. Portfolio loans outstanding at June 30, 2005 actually grew $131.48 million or 2.99% from the end of March 2005. However, most of this growth occurred in June and, thus, did not significantly impact the average loans for the quarter. The yield on loans for the second quarter of 2005 increased 17 basis points from the first quarter, but this increase was more than offset by an increase of 19 basis points in the cost of funds. The net interest margin for the second quarter of 2005 of 3.88% was an increase of 3 basis points from the net interest margin of 3.85% for the first quarter of 2005.

Tax-equivalent net interest income from continuing operations for the first six months of 2005 was $112.18 million, an increase of $7.38 million or 7.04% from the prior year s first six months as average earning assets increased $337.11 million or 6.14% due to average loan growth of $367.93 million or 9.08%. In addition, the average yield on earning assets for the first six months of 2005 increased 40 basis points from the first six months of 2004 due to higher interest rates. However, as a result of the higher interest rates, the average cost of funds for the first half of 2005 increased 45 basis points from the first half of 2004. The consolidated net interest margin for the first half of 2005 was 3.86%, up 4 basis points from a consolidated net interest margin of 3.82% during the same period last year.

Tables 1 and 2 on the following pages show the consolidated daily average balance of major categories of assets and liabilities for the three-month and six-month periods ended June 30, 2005 and 2004, respectively, with the consolidated interest and rate earned or paid on such amount. The interest income and yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%. The interest income and yield on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income rate of 9%.

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Table 1

	Three Months Ended June 30, 2005			Three Months Ended June 30, 2004		
(Dollars in thousands)	**Average Balance**	**Interest**	**Avg. Rate**	**Average Balance**	**Interest**	**Avg. Rate**
ASSETS						
Earning Assets:						
Federal funds sold and securities repurchased Under agreements to resell and other short-term investments	$ 31,901	$ 220	2.77%	$ 39,676	$ 110	1.12%
Investment Securities:						
Taxable	1,197,814	13,653	4.56%	1,279,143	13,523	4.25%
Tax-exempt (1) (2)	193,624	3,230	6.67%	177,424	3,053	6.92%
Total Securities	1,391,438	16,883	4.85%	1,456,567	16,576	4.58%
Loans, net of unearned income (1) (2) (3)	4,443,406	68,044	6.14%	4,448,055	61,490	5.55%
Allowance for loan losses	(43,635)			(50,592)		
Net loans	4,399,771		6.20%	4,397,463		5.61%
Total earning assets	5,823,110	$ 85,147	5.86%	5,893,706	$ 78,176	5.32%
Other assets	537,322			540,369		
TOTAL ASSETS	$ 6,360,432			$ 6,434,075		
LIABILITIES						
Interest-Bearing Funds:						
Interest-bearing deposits	$ 3,479,012	$ 16,633	1.92%	$ 3,291,816	$ 11,284	1.38%
Short-term borrowings	727,266	4,013	2.21%	717,184	1,662	0.93%
Long-term borrowings	575,413	8,075	5.63%	862,126	9,740	4.54%
Total Interest-Bearing Funds	4,781,691	28,721	2.41%	4,871,126	22,686	1.87%
Noninterest-bearing deposits	892,542			882,023		
Accrued expenses and other liabilities	51,986			47,684		
TOTAL LIABILITIES	5,726,219			5,800,833		
SHAREHOLDERS EQUITY	634,213			633,242		

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 6,360,432			$ 6,434,075		
NET INTEREST INCOME		$ 56,426			$ 55,490	
INTEREST SPREAD			3.45%			3.45%
NET INTEREST MARGIN			3.88%			3.77%

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

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

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

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Table 2

(Dollars in thousands)	Six Months Ended June 30, 2005 Average Balance	Interest	Avg. Rate	Six Months Ended June 30, 2004 Average Balance	Interest	Avg. Rate
ASSETS						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	$ 29,190	$ 346	2.39%	$ 25,225	$ 186	1.48%
Investment Securities:						
Taxable	1,229,465	27,659	4.50%	1,287,990	26,985	4.21%
Tax-exempt (1) (2)	192,343	6,225	6.47%	175,486	6,113	7.00%
Total Securities	1,421,808	33,884	4.77%	1,463,476	33,098	4.55%
Loans, net of unearned income (1) (2) (3)	4,421,031	132,958	6.05%	4,345,966	121,480	5.61%
Allowance for loan losses	(43,507)			(50,507)		
Net loans	4,377,524		6.11%	4,295,459		5.68%
Total earning assets	5,828,522	$ 167,188	5.77%	5,784,160	$ 154,764	5.37%
Other assets	533,385			550,561		
TOTAL ASSETS	$ 6,361,907			$ 6,334,721		
LIABILITIES						
Interest-Bearing Funds:						
Interest-bearing deposits	$ 3,457,806	$ 31,320	1.83%	$ 3,250,578	$ 22,191	1.37%
Short-term borrowings	733,421	7,427	2.04%	687,532	3,241	0.95%
Long-term borrowings	595,315	16,260	5.51%	857,660	19,226	4.51%
Total Interest-Bearing Funds	4,786,542	55,007	2.32%	4,795,770	44,658	1.87%
Non-interest bearing deposits	884,940			865,462		
Accrued expenses and other liabilities	53,631			45,646		
TOTAL LIABILITIES	5,725,113			5,706,878		
SHAREHOLDERS EQUITY	636,794			627,843		

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 6,361,907			$ 6,334,721		
NET INTEREST INCOME		$ 112,181			$ 110,106	
INTEREST SPREAD			3.45%			3.50%
NET INTEREST MARGIN			3.86%			3.82%

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

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

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

Provision for Credit Losses

At June 30, 2005, nonperforming loans were $15.47 million or 0.34% of loans, net of unearned income compared to nonperforming loans of $10.78 million or 0.24% of loans, net of unearned income at December 31, 2004, respectively. United s credit quality continues to compare favorably to its most recently reported peer group banking companies averages despite the increase in nonperforming loans. The components of nonperforming loans include nonaccrual loans and loans, which are contractually past due 90 days or more as to interest or principal, but have not been put on a nonaccrual basis. At June 30, 2005, nonaccrual loans were $9.51 million, an increase of $3.16 million from $6.35 million at year-end 2004. This increase was due mainly to one large commercial credit of $2.54 million being placed on nonaccrual at June 30, 2005. This credit is adequately collateralized and was appropriately considered in assessing the adequacy of the allowance for credit losses. Loans past due 90 days or more were $5.96 million at June 30, 2005 as compared to $4.43 million at year-end 2004. This increase was due mainly to two loans with one commercial customer totaling $972 thousand. The loans are secured by real estate and cash. The loans are currently being refinanced to obtain additional collateral. Additional protection would also be provided by personal and corporate guarantors. The loss potential has been properly evaluated and allocated within the company s allowance for credit losses analysis process. Total nonperforming assets of $17.88 million, including OREO of $2.41 million at June 30, 2005, represented 0.27% of total assets at the end of the second quarter. For a summary of nonperforming assets, see Note 6 to the unaudited Notes to Consolidated Financial Statements.

At June 30, 2005, impaired loans were $17.19 million, which was an increase of $6.84 million from the $10.35 million in impaired loans at December 31, 2004. This increase in impaired loans was due primarily to the addition of three large commercial credits totaling approximately $5 million. The three credits are adequately secured by real estate. Collection efforts are ongoing and the loss potential has been evaluated and allocated within the allowance for credit losses analysis process. For further details, see Note 6 to the unaudited consolidated financial statements.

United evaluates the adequacy of the allowance for credit losses on a quarterly basis and its loan administration policies are focused upon the risk characteristics of the loan portfolio. United s process for evaluating the allowance is a formal company-wide process that focuses on early identification of potential problem credits and procedural discipline in managing and accounting for those credits. This process determines the appropriate level of the allowance for credit losses, allocation among loan types and lending-related commitments, and the resulting provision for credit losses.

United maintains an allowance for loan losses and an allowance for lending-related commitments. The combined allowances for loan losses and lending-related commitments are referred to as the allowance for credit losses. At June 30, 2005, the allowance for credit losses was $51.63 million as compared to $51.35 million at December 31, 2004. As a percentage of loans, net of unearned income, the allowance for credit losses was 1.14% at June 30, 2005 and 1.16% of loans, net of unearned income at December 31, 2004. The ratio of the allowance for credit losses to nonperforming loans was 333.9% and 476.5% at June 30, 2005 and December 31, 2004, respectively.

For the quarters ended June 30, 2005 and 2004, the provision for credit losses was $504 thousand and $539 thousand, respectively. The provision for credit losses for the first six months of 2005 and 2004 was $1.62

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million and $1.90 million, respectively. Net charge-offs were $295 thousand for the second quarter of 2005 as compared to net charge-offs of $511 thousand for the same quarter in 2004. Net charge-offs for the first six months of 2005 were $1.34 million as compared to $1.83 million for the first six months of 2004. Note 5 to the accompanying unaudited Notes to Consolidated Financial Statements provides a progression of the allowance for credit losses.

In determining the adequacy of the allowance for credit losses, management makes allocations to specific commercial loans classified by management as to risk. Management determines the loan s risk by considering the borrowers ability to repay, the collateral securing the credit and other borrower-specific factors that may impact collectibility. Specific loss allocations are based on the present value of expected future cash flows using the loan s effective interest rate, or as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral-dependent. Other commercial loans not specifically reviewed on an individual basis are evaluated based on loan pools, which are grouped by similar risk characteristics using management s internal risk ratings. Allocations for these commercial loan pools are determined based upon historical loss experience adjusted for current conditions and risk factors. Allocations for loans, other than commercial loans, are developed by applying historical loss experience adjusted for current conditions and risk factors to loan pools grouped by similar risk characteristics. While allocations are made to specific loans and pools of loans, the allowance is available for all credit losses.

Allocations are made for specific commercial loans based upon management s estimate of the borrowers ability to repay and other factors impacting collectibility. Other commercial loans not specifically reviewed on an individual basis are evaluated based on historical loan percentages applied to loan pools that have been segregated by risk. Allocations for loans other than commercial loans are made based upon historical loss experience adjusted for current conditions. The allowance for imprecision is a relatively small component of the total allowance for credit losses and recognizes the normal variance resulting from the process of estimation. Differences between actual loan loss experience and estimates are reviewed on a quarterly basis and adjustments are made to those estimates.

United s formal company-wide process at June 30, 2005 produced smaller allocations in two of the four loan categories when compared to year-end 2004. The components of the allowance allocated to commercial loans decreased $626 thousand as a result of the elimination of a special allocation for commercial loan growth ($900 thousand). The consumer loan pool allocation decreased $119 thousand due to decreases in historical loss rates. The components of the allowance allocated to real estate loans increased $257 thousand primarily as a result of increased allocation for home equity lending and changes in qualitative factors related to these loans. There was little change in the real estate construction loan pool allocation that was up by $54 thousand. The unfunded commitments liability increased by $97 thousand due to changes in qualitative factors.

Management believes that the allowance for credit losses of $51.63 million at June 30, 2005 is adequate to provide for probable losses on existing loans and loan-related commitments based on information currently available.

Management is not aware of any potential problem loans, trends or uncertainties, which it reasonably expects, will materially impact future operating results, liquidity, or capital resources which have not been

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disclosed. Additionally, management has disclosed all known material credits, which cause management to have serious doubts as to the ability of such borrowers to comply with the loan repayment schedules.

Other Income

Other income consists of all revenues, which are not included in interest and fee income related to earning assets. Noninterest income has been and will continue to be an important factor for improving United s profitability. Recognizing the importance, management continues to evaluate areas where noninterest income can be enhanced. Consolidated noninterest income was $26.28 million for the first six months of 2005, down $16.73 million or 38.90% when compared to the first six months of 2004. For the second quarter of 2005, consolidated noninterest income was $13.36 million, a decrease of $9.59 million or 41.79% from the second quarter of 2004. These significant decreases in consolidated noninterest income were due to income from the discontinued mortgage banking operations of Mason Mortgage being included in the consolidated results for the first half and second quarter of 2004.

Noninterest income from continuing operations for the second quarter and first six months of 2005 was $13.36 million and $26.28 million, respectively, a decrease of $342 thousand or 2.50% and $986 thousand or 3.62% from the comparable time periods in 2004. The decreases in noninterest income from continuing operations were attributable mainly to declines in fees from deposit services of $772 thousand or 9.94% and $1.68 million or 11.06%, respectively, for the second quarter and first half of 2005 as compared to the same periods in the prior year.

Revenue from trust and brokerage services grew $266 thousand or 5.08% for the first six months of 2005 as compared to the first six months of 2004. For the second quarter of 2005, revenue from trust and brokerage services grew $78 thousand or 2.93% from the prior year s second quarter.

Income from bank life insurance policies increased $441 thousand or 43.32% and $407 thousand or 20.16% for the second quarter and first half of 2005, respectively, as compared to last year s income during the same periods. In the third quarter of 2004, United commenced operations of a mortgage title insurance company, which generated fees totaling $185 thousand and $304 thousand for the second quarter and first half of 2005, respectively.

Net gains on securities transactions increased $162 thousand or 19.76% for the first six months of 2005 as compared to the first six months of 2004. For the second quarter of 2005, net gains on securities transactions decreased $48 thousand or 45.28% compared to the second quarter of 2004.

On a linked-quarter basis, noninterest income from continuing operations increased $440 thousand or 3.41% from the first quarter of 2005 due mainly to increased income from deposit services of $510 thousand and bank owned life insurance policies of $495 thousand. Net gains on securities transactions dropped $866 thousand from the first quarter of 2005.

Other Expenses

Just as management continues to evaluate areas where noninterest income can be enhanced, it strives to

improve the efficiency of its operations to reduce costs. Other expenses include all items of expense other than interest expense, the provision for loan losses, and income taxes. Consolidated noninterest expenses decreased $8.66 million or 22.07% for the second quarter of 2005 compared to the same period in 2004, which includes noninterest expense of $9.76 million from discontinued operations. For the first half of 2005, consolidated noninterest expenses dropped $17.14 million or 22.42% from the first half of 2004. This decrease is due to noninterest expense from discontinued operations which totaled $17.36 million for the first half of 2004.

Noninterest expense from continuing operations increased $1.10 million or 3.75% from the second quarter of 2004. Salaries and benefits expense is the main reason for the rise in noninterest expense as this expense increased $746 thousand or 5.26% as a result of higher salaries and increased health insurance and pension costs. Noninterest expense from continuing operations for the first half of 2005 remained fairly consistent with the first half of 2004 as it increased only $221 thousand or less than 1%.

Net occupancy expense from continuing operations for the second quarter of 2005 remained flat compared to the second quarter of 2004, increasing only $18 thousand or less than 1%. Net occupancy expense for the first six months of 2005 decreased $100 thousand or 1.60%, when compared to the first six months of 2004.

Equipment expense decreased $197 thousand or 10.54% and $537 thousand or 13.95% for the second quarter and first half of 2005, respectively, as compared to the same periods in 2004. The decrease was due mainly to lower levels of depreciation expense.

Data processing expense increased $391 thousand or 34.18% for the second quarter of 2005 as compared to the second quarter of 2004. For the first half of 2005, data processing expense increased $656 thousand or 29.66% as compared to the first half of 2005. The increase was primarily due to additional outsourcing of data processing functions.

On a linked-quarter basis, noninterest expense from continuing operations increased $1.84 million or 6.39% from the first quarter of 2005. This increase was primarily due to increases in several general operating expenses, none of which were individually significant. In addition, salaries and benefits expense from continuing operations increased $855 thousand or 6.08% due mainly to salary increases based on annual performance reviews and bonuses paid to lending personnel for production.

Income Taxes

For the second quarter of 2005, consolidated income taxes were $11.22 million as compared to $11.17 million for the second quarter of 2004. For the quarters ended June 30, 2005 and 2004, United s effective tax rates were 31.40% and 31.56%, respectively. For the first six months of 2005 and 2004, consolidated income taxes were $22.52 million and $21.24 million, respectively. United s effective tax rates for the first half of 2005 and 2004 were 31.37% and 30.80%, respectively.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

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

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

Interest sensitive assets and liabilities are defined as those assets or liabilities that mature or are repriced within a designated time frame. The principal function of interest rate risk management is to maintain an appropriate relationship between those assets and liabilities that are sensitive to changing market interest rates. The difference between rate sensitive assets and rate sensitive liabilities for specified periods of time is known as the GAP. Earnings-simulation analysis captures not only the potential of these interest sensitive assets and liabilities to mature or reprice but also the probability that they will do so. Moreover,

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earnings-simulation analysis considers the relative sensitivities of these balance sheet items and projects their behavior over an extended period of time. United closely monitors the sensitivity of its assets and liabilities on an on-going basis and projects the effect of various interest rate changes on its net interest margin.
The following table shows United s estimated earnings sensitivity profile as of June 30, 2005 and December 31, 2004:

Change in Interest Rates (basis points)	**Percentage Change in Net Interest Income**	
	June 30, 2005	**December 31, 2004**
+100	3.04%	2.55%
-100	-5.70%	-5.20%

At June 30, 2005, given an immediate, sustained 100 basis point upward shock to the yield curve used in the simulation model, net interest income for United is estimated to increase by 3.04% over one year as compared to an increase of 2.55% at December 31, 2004. A 100 basis point immediate, sustained downward shock in the yield curve would decrease net interest income by an estimated 5.70% over one year at June 30, 2005 as compared to a decrease of 5.20% at December 31, 2004. This analysis does not include the potential increased refinancing activities, which should lessen the negative impact on net income from falling rates. While it is unlikely market rates would immediately move 100 basis points upward or downward on a sustained basis, this is another tool used by management and the Board of Directors to gauge interest rate risk. All of these estimated changes in net interest income are and were within the policy guidelines established by the Board of Directors.
To further aid in interest rate management, United s subsidiary banks are members of the Federal Home Loan Bank (FHLB). The use of FHLB advances provides United with a low risk means of matching maturities of earning assets and interest-bearing funds to achieve a desired interest rate spread over the life of the earning assets.
As part of its interest rate risk management strategy, United may use derivative instruments to protect against adverse price or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives commonly consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. Interest rate swaps obligate two parties to exchange one or more payments generally calculated with reference to a fixed or variable rate of interest applied to the notional amount. United accounts for its derivative activities in accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.
During 1999, to better manage risk, United sold fixed-rate residential mortgage loans in a securitization transaction. In that securitization, United retained a subordinated interest that represented United s right to future cash flows arising after third party investors in the securitization trust have received the return for which they contracted. United does not receive annual servicing fees from this securitization because the loans are serviced by an independent third-party. The investors and the securitization trust have no recourse to United s other assets for failure of debtors to pay when due; however, United s retained interests are subordinate to investors interests. The book and fair value of the subordinated interest are subject to credit,

prepayment, and interest rate risks on the underlying fixed-rate residential mortgage loans in the securitization.
At the date of securitization, key economic assumptions used in measuring the fair value of the subordinated interest were as follows: a weighted average life of 5.3 years, expected cumulative default rate of 15%, and residual cash flows discount rates of 8% to 18%. Key economic assumptions used in measuring the fair value of the subordinated interest at June 30, 2005 and December 31, 2004 were as follows:

	June 30, 2005	**December 31, 2004**
Weighted average life (in years)	1.3	1.7
Prepayment speed assumption (annual rate)	15.19% - 34.00%	15.19% - 33.00%
Cumulative default rate	19.21%	19.21%
Residual cash flows discount rate (annual rate)	5.63% - 11.98%	5.02% - 11.08%

At June 30, 2005 and December 31, 2004, the fair values of the subordinated interest were approximately $4.14 million and $8.28 million, respectively, and are carried in the available for sale investment portfolio. The cost of the available for sale securities has been fully amortized as of June 30, 2005.
At June 30, 2005, the principal balances of the residential mortgage loans held in the securitization trust were approximately $20.3 million. Principal amounts owed to third party investors and to United in the securitization were approximately $7.7 million and $12.6 million, respectively, at June 30, 2005. United recognizes the excess of all cash flows attributable to the subordinated interest using the effective yield method. Because the amortized cost of United s subordinated interest was zero at June 30, 2005, the difference between the cash flows associated with these underlying mortgages and amounts owed to third party investors will be recognized into interest income as cash is received by United over the remaining life of the loans. The weighted average term to maturity of the underlying mortgages approximated 15 years as of June 30, 2005. During the three and six months ended June 30, 2005, United received cash of $2.09 million and $4.14 million, respectively, from its subordinated interest in the securitization.
The amount of future cash flows from United s subordinated interest is highly dependent upon future prepayments and defaults. Accordingly, the amount and timing of future cash flows to United is uncertain at this time.
The following table presents quantitative information about delinquencies, net credit losses, and components of the underlying securitized fixed-rate residential mortgage loans:

	June 30, 2005	**December 31, 2004**
Total principal amount of loans	$ 20,285	$ 25,207
Principal amount of loans 60 days or more past due	389	617
Year to date average balances	22,723	32,632
Year to date net credit losses	158	896

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Extension Risk

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

At June 30, 2005, United had $932 million in mortgage related securities of which approximately $803 million or 86% were fixed rate collateralized mortgage obligations (CMOs). Theses CMOs consisted primarily of planned amortization class (PACs) and accretion directed (VADMs) bonds having an average life of approximately 2.6 years and a weighted average yield of 3.91%, under current prepayment assumptions. These securities were selected for their overall total return characteristics. These securities are expected to have very little extension risk in a rising rate environment. Current models show that in rates up 300 basis points, the average life of these securities would extend to 3.3 years with a slight increase in yield. The projected price decline of the CMO portfolio in rates up 300 basis points would be 8.2%, roughly equivalent to a 3 year treasury note. By comparison, the price decline of a 30-year current coupon mortgage backed security (MBS) in rates higher by 300 basis points would be approximately 17%.

United had approximately $27 million in 30-year mortgage backed securities with a projected yield of 6.58% and a projected average life of 3.1 years on June 30, 2005. These bonds are projected to be good risk/reward securities in stable and rates up moderate scenarios due to the high yield and premium book price. However, should rates increase 300 basis points, the average life will extend and these bonds will experience significant price depreciation, but not as significant as current coupon pools.

The remainder of the mortgage related securities portfolio at June 30, 2005, consisted primarily of adjustable rate securities (ARMs), balloon securities, and 10-year, 15-year and 20-year amortization pools.

Liquidity

United maintains, in the opinion of management, liquidity which is sufficient to satisfy its depositors requirements and the credit needs of its customers. Like all banks, United depends upon its ability to renew maturing deposits and other liabilities on a daily basis and to acquire new funds in a variety of markets. A significant source of funds available to United is core deposits . Core deposits include certain demand deposits, statement and special savings and NOW accounts. These deposits are relatively stable and they are the lowest cost source of funds available to United.

Short-term borrowings have also been a significant source of funds. These include federal funds purchased and securities sold under agreements to repurchase. Repurchase agreements represent funds, which are obtained as the result of a competitive bidding process.

Liquid assets are cash and those items readily convertible to cash. All banks must maintain sufficient

balances of cash and near-cash items to meet the day-to-day demands of customers. Other than cash and due from banks, the available for sale securities portfolio, loans held for sale and maturing loans and investments are the primary sources of liquidity.

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

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

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

For the six months ended June 30, 2005, cash of $52.98 million was provided by operating activities of continuing operations. Net cash of $49.20 million was used in investing activities which was primarily due to loan growth of $106.62 million which was partially offset by net cash received of $58.77 million for excess net proceeds from sales, calls and maturities of investment securities over purchases. During the first six months of 2005, net cash of $53.05 million was provided by financing activities due primarily to deposit growth of $216.38 million and net long-term borrowings of $23.34 million from the FHLB. Uses of cash for financing activities included repayments of $146.94 million in short-term borrowings and payment of $22.34 million and $18.63 million, respectively, for cash dividends and acquisitions of United shares under the stock repurchase program. The net effect of this activity was an increase in cash and cash equivalents of $56.82 million for the first six months of 2005.

United anticipates it can meet its obligations over the next 12 months and has no material commitments for capital expenditures. There are no known trends, demands, commitments, or events that will result in or that are reasonably likely to result in United s liquidity increasing or decreasing in any material way. United also has lines of credit available.

The Asset and Liability Committee monitors liquidity to ascertain that a liquidity position within certain prescribed parameters is maintained. In addition, variable rate loans are a priority. These policies help to protect net interest income against fluctuations in interest rates. No changes are anticipated in the policies of United s Asset and Liability Committee.

Capital Resources

United s capital position is financially sound. United seeks to maintain a proper relationship between capital

and total assets to support growth and sustain earnings. United has historically generated attractive returns on shareholders equity. Based on regulatory requirements, United and its banking subsidiaries are categorized as well capitalized institutions. United s risk-based capital ratios of 11.43% at June 30, 2005 and 11.58% at December 31, 2004, are both significantly higher than the minimum regulatory requirements. United s Tier I capital and leverage ratios of 10.28% and 8.73%, respectively, at June 30, 2005, are also well above regulatory minimum requirements. Total shareholders equity was $636.51 million, an increase of $5.01 million or less than 1% from December 31, 2004. United s equity to assets ratio was 9.75% at June 30, 2005, as compared to 9.81% at December 31, 2004. The primary capital ratio, capital and reserves to total assets and reserves, was 10.46% at June 30, 2005, as compared to 10.53% at December 31, 2004. United s average equity to average asset ratio was 9.97% and 9.84% for the quarters ended June 30, 2005 and 2004, respectively. For the first half of 2005 and 2004, the average equity to average assets ratio was 10.01% and 9.91%, respectively.

During the second quarter of 2005, United s Board of Directors declared a cash dividend of $0.26 per share. Cash dividends were $0.52 per common share for the first six months of 2005. Total cash dividends declared were approximately $11.07 million for the second quarter of 2005 and $22.21 million for the first six months of 2005, an increase of 1.89% and 1.96% over comparable periods of 2004. The year 2005 is expected to be the 32nd consecutive year of dividend increases to United shareholders.

Item 4. CONTROLS AND PROCEDURES

As of June 30, 2005, an evaluation was performed under the supervision of and with the participation of United s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of United s disclosure controls and procedures. Based on that evaluation, United s management, including the CEO and CFO, concluded that United s disclosure controls and procedures as of June 30, 2005 were effective in ensuring that information required to be disclosed in the Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time period required by the Securities and Exchange Commission s rules and forms. There have been no changes in United s internal control over financial reporting that occurred during the quarter ended June 30, 2005, or in other factors that has materially affected or is reasonably likely to materially affect United s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

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

The table below includes certain information regarding United s purchase of its common shares during the quarter and six-month period ended June 30, 2005:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet be Purchased Under the Plans (1)
1/01 1/31/2005	80,037	$ 35.81	84,014	1,690,986
2/01 2/28/2005	77,206	$ 34.85	161,220	1,613,780
3/01 3/31/2005	88,051	$ 33.81	249,271	1,525,729
4/01 4/30/2005	91,305	$ 32.19	340,576	1,434,424
5/01 5/31/2005	105,040	$ 31.84	445,616	1,329,384
6/01 6/30/2005	110,041	$ 34.61	555,657	1,219,343
Total	551,680	$ 33.76		

(1) In August of 2004, United s Board of Directors approved a stock repurchase plan to repurchase up to 1.775 million shares of United s common stock on the open market. The timing, price and quantity of purchases under

the plans are at the discretion of management and the plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

(a) The Annual Meeting of Shareholders was held on Monday, May 16, 2005.

(b) Not applicable as to election of directors because: i) proxies for the meeting were solicited pursuant to Regulation 14 under the Securities and Exchange Act of 1934; ii) there was no solicitation in opposition to the nominees as listed in the proxy statement; iii) all of such nominees, as listed in the

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proxy statement, were elected.

(c) One proposal was voted upon at the annual meeting, the election of seventeen (17) persons to serve as directors of United for a one-year term expiring at the 2006 Annual Meeting. The results of the voting were as follows:

	Votes For	Votes Withheld
Richard M. Adams	36,219,052	1,215,410
Robert G. Astorg	36,312,844	1,121,618
Thomas J. Blair, III	37,084,991	349,471
Harry L. Buch	37,081,019	353,443
W. Gaston Caperton, III	28,924,341	8,510,121
Lawrence K. Doll	37,101,246	333,216
H. Smoot Fahlgren	31,471,107	5,963,355
Theodore J. Georgelas	37,029,125	405,337
F. T. Graff, Jr.	29,754,093	7,680,369
Russell L. Isaacs	36,638,945	795,517
John M. McMahon	37,191,127	243,335
J. Paul McNamara	37,073,500	360,960
G. Ogden Nutting	37,158,374	276,088
William C. Pitt, III	37,096,001	338,461
I. N. Smith, Jr.	36,841,969	592,493
Mary K. Weddle	36,919,546	514,916
P. Clinton Winter, Jr.	36,813,234	621,228

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits required by Item 601 of Regulation S-K

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

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

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

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

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SIGNATURES

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

UNITED BANKSHARES, INC.
(Registrant)

Date: August 4, 2005 /s/ Richard M. Adams

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

Date: August 4, 2005 /s/ Steven E. Wilson

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

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