UNITED BANKSHARES INC/WV
Form 10-Q
November 07, 2007

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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 September 30, 2007**

**Or**

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period __________**

**Commission File Number: 0-13322**
**United Bankshares, Inc.**
(Exact name of registrant as specified in its charter)

| **West Virginia** | **55-0641179** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **300 United Center**<br>**500 Virginia Street, East**<br>**Charleston, West Virginia** | **25301** |
| (Address of Principal Executive Offices) | Zip Code |

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

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

**Yes þ** No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **þ** Accelerated Filer **o** Non-accelerated Filer **o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

**Yes o No þ**

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

Class Common Stock, $2.50 Par Value; **43,212,399** shares outstanding as of **October 31, 2007**.

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**
**FORM 10-Q**
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## PART I FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS (UNAUDITED)

The September 30, 2007 and December 31, 2006, consolidated balance sheets of United Bankshares, Inc. and Subsidiaries ( United or the Company ), consolidated statements of income for the three and nine months ended September 30, 2007 and 2006, the related consolidated statement of changes in shareholders equity for the nine months ended September 30, 2007, the related condensed consolidated statements of cash flows for the nine months ended September 30, 2007 and 2006, 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) | September 30 2007 (Unaudited) | December 31 2006 (Note 1) |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 167,228 | $ 217,562 |
| Interest-bearing deposits with other banks | 24,789 | 22,882 |
| Federal funds sold | 12,444 | 18,569 |
| Total cash and cash equivalents | 204,461 | 259,013 |
| Securities available for sale at estimated fair value (amortized cost-$1,102,410 at September 30, 2007 and $1,016,840 at December 31, 2006) | 1,098,548 | 1,010,252 |
| Securities held to maturity (estimated fair value-$158,350 at September 30, 2007 and $215,678 at December 31, 2006) | 158,252 | 212,296 |
| Other investment securities | 66,469 | 52,922 |
| Loans held for sale | 954 | 2,041 |
| Loans | 5,593,245 | 4,813,708 |
| Less: Unearned income | (6,919) | (6,961) |
| Loans net of unearned income | 5,586,326 | 4,806,747 |
| Less: Allowance for loan losses | (50,353) | (43,629) |
| Net loans | 5,535,973 | 4,763,118 |
| Bank premises and equipment | 62,026 | 38,111 |
| Goodwill | 312,857 | 167,421 |
| Accrued interest receivable | 38,835 | 34,508 |
| Other assets | 207,313 | 177,916 |
| TOTAL ASSETS | $ 7,685,688 | $ 6,717,598 |
| **Liabilities** | | |
| Deposits: | | |
| Noninterest-bearing | $ 874,696 | $ 903,207 |
| Interest-bearing | 4,471,530 | 3,924,985 |
| Total deposits | 5,346,226 | 4,828,192 |
| Borrowings: | | |
| Federal funds purchased | 78,405 | 97,720 |
| Securities sold under agreements to repurchase | 575,206 | 460,858 |
| Federal Home Loan Bank borrowings | 643,672 | 533,899 |
| Other short-term borrowings | 2,007 | 3,688 |
| Other long-term borrowings | 206,459 | 85,301 |
| Allowance for lending-related commitments | 8,264 | 8,742 |
| Accrued expenses and other liabilities | 70,180 | 65,106 |

| | | |
|---|---|---|
| TOTAL LIABILITIES | 6,930,419 | 6,083,506 |
| **Shareholders Equity** | | |
| Common stock, $2.50 par value; Authorized-100,000,000 shares; issued-44,320,832 at September 30, 2007 and December 31, 2006, including 1,138,504 and 3,261,931 shares in treasury at September 30, 2007 and December 31, 2006, respectively | 110,802 | 110,802 |
| Surplus | 99,145 | 93,680 |
| Retained earnings | 598,770 | 559,257 |
| Accumulated other comprehensive loss | (13,904) | (15,791) |
| Treasury stock, at cost | (39,544) | (113,856) |
| TOTAL SHAREHOLDERS EQUITY | 755,269 | 634,092 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 7,685,688 | $ 6,717,598 |

*See notes to consolidated unaudited financial statements.*

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (Dollars in thousands, except per share data) | 2007 | 2006 | 2007 | 2006 |
| **Interest income** | | | | |
| Interest and fees on loans | $ 99,240 | $ 84,288 | $ 267,111 | $ 242,537 |
| Interest on federal funds sold and other short-term investments | 876 | 515 | 1,980 | 1,235 |
| Interest and dividends on securities: | | | | |
| Taxable | 13,832 | 13,934 | 40,446 | 43,371 |
| Tax-exempt | 3,361 | 3,698 | 10,096 | 11,334 |
| Total interest income | 117,309 | 102,435 | 319,633 | 298,477 |
| **Interest expense** | | | | |
| Interest on deposits | 40,176 | 32,312 | 107,574 | 84,807 |
| Interest on short-term borrowings | 8,220 | 7,142 | 22,846 | 23,029 |
| Interest on long-term borrowings | 9,801 | 8,052 | 24,619 | 25,111 |
| Total interest expense | 58,197 | 47,506 | 155,039 | 132,947 |
| Net interest income | 59,112 | 54,929 | 164,594 | 165,530 |
| Provision for credit losses | 1,550 | 571 | 2,750 | 1,169 |
| Net interest income after provision for credit losses | 57,562 | 54,358 | 161,844 | 164,361 |
| **Other income** | | | | |
| Fees from trust and brokerage services | 3,788 | 3,190 | 11,097 | 9,857 |
| Fees from deposit services | 9,087 | 7,367 | 24,134 | 21,575 |
| Other service charges, commissions, and fees | 2,285 | 1,785 | 5,769 | 5,202 |
| Income from bank-owned life insurance | 1,179 | 1,181 | 3,965 | 3,285 |
| Income from mortgage banking | 124 | 236 | 447 | 615 |
| Security gains (losses) | 172 | (134) | 494 | (3,071) |
| (Loss) Gain on termination of interest rate swaps associated with prepayment of FHLB advances | | (7,659) | 787 | (4,599) |
| Other income | 691 | 248 | 2,074 | 1,437 |
| Total other income | 17,326 | 6,214 | 48,767 | 34,301 |
| **Other expense** | | | | |
| Salaries and employee benefits | 17,452 | 15,740 | 46,830 | 46,789 |
| Net occupancy expense | 3,823 | 3,031 | 10,393 | 9,458 |
| Equipment expense | 2,059 | 1,567 | 4,867 | 4,599 |
| Data processing expense | 2,448 | 1,477 | 6,401 | 4,428 |
| Bankcard processing expense | 1,445 | 1,257 | 3,857 | 3,507 |
| Prepayment penalties on FHLB advance | | 8,261 | 786 | 8,261 |
| Other expense | 11,795 | 8,881 | 29,879 | 27,523 |

| | | | | |
|---|---|---|---|---|
| Total other expense | 39,022 | 40,214 | 103,013 | 104,565 |
| Income before income taxes | 35,866 | 20,358 | 107,598 | 94,097 |
| Income taxes | 10,063 | 6,193 | 32,876 | 29,863 |
| Net income | $ 25,803 | $ 14,165 | $ 74,722 | $ 64,234 |
| Earnings per common share: | | | | |
| Basic | $ 0.60 | $ 0.34 | $ 1.80 | $ 1.54 |
| Diluted | $ 0.60 | $ 0.34 | $ 1.79 | $ 1.53 |
| Dividends per common share | $ 0.28 | $ 0.27 | $ 0.84 | $ 0.81 |
| Average outstanding shares: | | | | |
| Basic | 42,731,909 | 41,373,945 | 41,458,388 | 41,658,678 |
| Diluted | 42,998,484 | 41,775,111 | 41,811,493 | 42,075,862 |

*See notes to consolidated unaudited financial statements.*

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

| | Nine Months Ended September 30, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | | | Accumulated Other Comprehensive Income | | Total |
| *(Dollars in thousands, except per share data)* | Shares | Par Value | Surplus | Retained Earnings | (Loss) | Treasury Stock | Shareholders Equity |
| Balance at January 1, 2007 | 44,320,832 | $110,802 | $93,680 | $559,257 | ($15,791) | ($113,856) | $634,092 |
| Cumulative effect of adopting FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, at January 1, 2007 | | | | (300) | | | (300) |
| Comprehensive income: | | | | | | | |
| Net income | | | | 74,722 | | | 74,722 |
| Other comprehensive income, net of tax: | | | | | | | |
| Unrealized gain on securities of $2,091 net of reclassification adjustment for gains included in net income of $321 | | | | | 1,770 | | 1,770 |
| Unrealized loss on cash flow hedge, net of tax of $1,600 | | | | | (2,972) | | (2,972) |
| Termination of cash flow hedge, net of tax of $1,033 | | | | | 1,919 | | 1,919 |
| Remaining unrealized loss related to the call of securities previously transferred from available for sale to held to maturity investment portfolio | | | | | 778 | | 778 |
| Accretion of the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio | | | | | 203 | | 203 |
| Pension plan s amortization of transition asset, prior service cost, and actuarial loss, net of tax of $125 | | | | | 189 | | 189 |
| Total comprehensive income | | | | | | | 76,609 |
| Acquisition of Premier Community Bankshares, Inc. (2,684,068 shares) | | | 8,443 | | | 93,707 | 102,150 |
| Purchase of treasury stock (746,472 shares) | | | | | | (25,869) | (25,869) |
| Distribution of treasury stock for deferred compensation plan (2,000 shares) | | | | | | 59 | 59 |
| Cash dividends ($0.84 per share) | | | | (34,909) | | | (34,909) |
| Common stock options exercised (183,831 shares) | | | (2,978) | | | 6,415 | 3,437 |
| Balance at September 30, 2007 | 44,320,832 | $110,802 | $99,145 | $598,770 | ($13,904) | ($39,544) | $755,269 |

*See notes to consolidated unaudited financial statements*

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

| *(Dollars in thousands)* | Nine Months Ended September 30 2007 | 2006 |
|---|---|---|
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 67,820 | $ 54,453 |
| **INVESTING ACTIVITIES** | | |
| Proceeds from maturities and calls of securities held to maturity | 56,287 | 13,672 |
| Proceeds from sales of securities held to maturity | 475 | |
| Purchases of securities held to maturity | (445) | (587) |
| Proceeds from sales of securities available for sale | 9,587 | 135,381 |
| Proceeds from maturities and calls of securities available for sale | 493,245 | 277,647 |
| Purchases of securities available for sale | (558,412) | (222,645) |
| Net purchases of bank premises and equipment | (2,107) | (2,391) |
| Net cash of acquired subsidiary | (35,778) | |
| Net change in other investment securities | (8,978) | 9,545 |
| Net change in loans | (32,141) | (103,046) |
| NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES | (78,267) | 107,576 |
| **FINANCING ACTIVITIES** | | |
| Cash dividends paid | (34,335) | (33,907) |
| Excess tax benefits from stock-based compensation arrangements | 796 | 499 |
| Acquisition of treasury stock | (24,885) | (36,503) |
| Net proceeds from issuance of trust preferred securities | 82,475 | |
| Proceeds from exercise of stock options | 2,416 | 5,561 |
| Distribution of treasury stock for deferred compensation plan | 59 | 35 |
| Proceeds from long-term Federal Home Loan Bank borrowings | 333,900 | 200,000 |
| Repayment of long-term Federal Home Loan Bank borrowings | (234,127) | (252,067) |
| Changes in: | | |
| Deposits | (198,834) | 133,103 |
| Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings | 28,430 | (214,176) |
| NET CASH USED IN FINANCING ACTIVITIES | (44,105) | (197,455) |
| Decrease in cash and cash equivalents | (54,552) | (35,426) |
| Cash and cash equivalents at beginning of year | 259,013 | 207,962 |
| Cash and cash equivalents at end of period | $ 204,461 | $ 172,536 |

*See notes to consolidated unaudited financial statements*.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**
UNITED BANKSHARES, INC. AND SUBSIDIARIES
**1. GENERAL**
The accompanying unaudited consolidated interim financial statements of United Bankshares, Inc. and Subsidiaries ( United ) have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not contain all of the information and footnotes required by accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements presented as of September 30, 2007 and 2006 and for the three-month and nine-month periods then ended have not been audited. The consolidated balance sheet as of December 31, 2006 has been extracted from the audited financial statements included in United s 2006 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 2006 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 February 2007, the Financial Standards Board (FASB) issued Statement No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities which provides companies with an option to report selected financial assets and liabilities at fair value. With this Standard, the FASB expects to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate the comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Statement does not eliminate disclosure requirements included in accounting standards. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. United does not expect that the adoption of this statement will have a material impact on its consolidated financial statements.
In September 2006, the FASB published Statement No. 158 (SFAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans , an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 requires employers to recognize in their statement of financial position an asset for a plan s overfunded status or a liability for a plan s underfunded status. United is also required to recognize fluctuations in the funded status in the year in which the changes occur through comprehensive

income. United adopted the recognition and disclosure provisions of SFAS 158 on December 31, 2006. See Note 13 for additional information regarding United s adoption of SFAS 158. SFAS also requires employers to measure the funded status of a plan as of the end of the employers fiscal year, with limited exceptions, and will be effective for United for the fiscal year ending December 31, 2008.

In September 2006, the FASB also issued Statement No. 157 (SFAS 157), Fair Value Measurements which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier adoption permitted. United is currently assessing the impact this statement will have on its consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation (FIN) No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes , to address the noncomparability in reporting tax assets and liabilities resulting from a lack of specific guidance in FASB Statement No. 109 (SFAS 109), Accounting for Income Taxes , on the uncertainty in income taxes recognized in an enterprise s financial statements. United has adopted FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 was recorded in retained earnings. The adoption of FIN 48 did not have a significant impact on United s consolidated financial statements. See Note 14 for additional information regarding United s adoption of FIN 48.

In March 2006, the FASB issued Statement No. 156 (SFAS 156), Accounting for Servicing of Financial Assets . SFAS 156 amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. SFAS 156 was effective for United on January 1, 2007. The implementation of SFAS 156 did not have a material impact on United s consolidated financial statements.

In February 2006, the FASB issued Statement No. 155 (SFAS 155), Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140 . SFAS 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS 155 amends SFAS No. 140, Accounting for the Impairment or Disposal of Long-Lived Assets , to allow a qualifying special-purpose entity (SPE) to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. United adopted SFAS 155 on January 1, 2007, as required. Its implementation did not have a material impact on United s consolidated financial statements.

On January 1, 2006, United adopted FASB Statement No. 123 revised 2004 (SFAS 123R), "Share-Based Payment which replaced Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation and superseded APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees and amended FASB Statement No. 95, Statement of Cash Flows. Under this transition method, compensation cost to be recognized beginning in the first quarter of 2006 would include: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006,

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based on the grant-date fair value estimated in accordance with the original provision of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods were not restated. Due to modification on December 30, 2005 to accelerate unvested options under United s existing stock option plans and the fact that no new options were granted in 2006 and the first nine months of 2007, United did not recognize any compensation cost for 2006 and the first nine months of 2007. See Note 12 for additional information regarding United s adoption of SFAS 123R.

**2. MERGERS & ACQUISITIONS**

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

At consummation, Premier had assets of approximately $911 million, loans of $759 million, deposits of $716 million and shareholders equity of $71 million. Premier s net income was $1.8 million or 31¢ per diluted share for the second quarter of 2007 and $3.6 million or 60¢ per diluted share for the first half of 2007. The transaction was accounted for under the purchase method of accounting.

The aggregate purchase price was approximately $200 million, including $98 million of cash, common stock valued at $97 million, and vested stock options exchanged valued at $5 million. The number of shares issued in the transaction were 2,684,068, which were valued based on the average market price of United s common shares over the period including the two days before and after the terms of the acquisition were agreed to and announced. The value of the vested stock options was determined using the Black-Scholes option pricing model based upon 241,428 options exchanged. The following weighted average assumptions were used to determine the value of the options exchanged: risk-free interest rate of 4.96%, expected dividend yield of 3.00%, volatility factor of the expected market price of United s common stock of 0.219 and a weighted expected option life of 2.1 years. The preliminary purchase price has been allocated to the identifiable tangible and intangible assets resulting in preliminary additions to goodwill and core deposit intangibles of approximately $148 million and $11 million, respectively. In the merger, United assumed approximately $2.5 million of liabilities to provide severance benefits to terminated employees of Premier. The estimated fair values of the acquired assets and liabilities, including identifiable intangible assets, are subject to refinement as additional information becomes available. Any subsequent adjustments to the fair values of assets and liabilities acquired, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill within the first 12 months following the date of acquisition.

**3. INVESTMENT SECURITIES**

The amortized cost and estimated fair values of securities available for sale are summarized on the following page:

| | September 30, 2007 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | $ 40,068 | $ 166 | $ 26 | $ 40,208 |
| State and political subdivisions | 118,583 | 1,553 | 553 | 119,583 |
| Mortgage-backed securities | 795,945 | 2,177 | 7,380 | 790,742 |
| Marketable equity securities | 6,585 | 191 | 177 | 6,599 |
| Other | 141,229 | 2,921 | 2,734 | 141,416 |
| Total | $1,102,410 | $7,008 | $10,870 | $1,098,548 |

| | December 31, 2006 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | $ 7,993 | | $ 85 | $ 7,908 |
| State and political subdivisions | 110,261 | $2,176 | 201 | 112,236 |
| Mortgage-backed securities | 777,133 | 822 | 11,896 | 766,059 |
| Marketable equity securities | 6,200 | 439 | 43 | 6,596 |
| Other | 115,253 | 2,619 | 419 | 117,453 |
| Total | $1,016,840 | $6,056 | $12,644 | $1,010,252 |

Provided below is a summary of securities available-for-sale which were in an unrealized loss position at September 30, 2007 and December 31, 2006:

| | Less than 12 months | | 12 months or longer | |
|---|---|---|---|---|
| | Market Value | Unrealized Losses | Market Value | Unrealized Losses |
| **September 30, 2007** | | | | |
| Treasuries and agencies | | | $ 3,963 | $ 26 |
| State and political | $ 21,400 | $ 159 | 27,260 | 394 |
| Mortgage-backed | 67,078 | 448 | 536,485 | 6,932 |
| Marketable equity securities | 750 | 109 | 132 | 68 |
| Other | 62,451 | 2,148 | 19,928 | 586 |
| Total | $ 151,679 | $ 2,864 | $ 587,768 | $ 8,006 |
| **December 31, 2006** | | | | |
| Treasuries and agencies | $ 1,978 | $ 3 | $ 3,905 | $ 82 |
| State and political | 3,452 | 22 | 25,651 | 179 |
| Mortgage-backed | 35,437 | 167 | 663,361 | 11,729 |

| | | | | |
|---|---|---|---|---|
| Marketable equity securities | | | 158 | 43 |
| Other | | | 25,637 | 419 |
| Total | $ 40,867 | $ 192 | $ 718,712 | $ 12,452 |

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Gross unrealized losses on available for sale securities were $10,870 at September 30, 2007. Securities in a continuous unrealized loss position for twelve months or more consisted primarily of mortgage-backed 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 security with an unrealized loss as of September 30, 2007 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 intent and the ability to hold these securities until such time as the value recovers or the securities mature. However, United acknowledges that any impaired securities may be sold in future periods in response to significant, unanticipated changes in asset/liability management decisions, unanticipated future market movements or business plan changes.

As previously reported, at March 31, 2006, as part of a balance sheet repositioning strategy, management specifically identified approximately $86 million of impaired, low-yielding, fixed rate investment securities for sale. Since United did not have the positive intent to hold these securities to recovery, United recognized a loss of approximately $2.93 million in the first quarter of 2006 related to these securities. These securities were subsequently sold on April 4, 2006.

The amortized cost and estimated fair value of securities available for sale at September 30, 2007 and December 31, 2006 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.

| | September 30, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $ 19,337 | $ 19,359 | $ 4,427 | $ 4,424 |
| Due after one year through five years | 109,487 | 109,053 | 106,890 | 105,431 |
| Due after five years through ten years | 183,767 | 182,568 | 214,164 | 212,051 |
| Due after ten years | 783,234 | 780,969 | 685,159 | 681,750 |
| Marketable equity securities | 6,585 | 6,599 | 6,200 | 6,596 |
| Total | $1,102,410 | $1,098,548 | $1,016,840 | $1,010,252 |

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

| | September 30, 2007 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | $ 11,600 | $ 865 | | $ 12,465 |
| State and political subdivisions | 60,623 | 963 | $ 2 | 61,584 |
| Mortgage-backed securities | 176 | 8 | | 184 |
| Other | 85,853 | 659 | 2,395 | 84,117 |
| Total | $158,252 | $2,495 | $2,397 | $158,350 |

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| | December 31, 2006 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | $ 11,682 | $ 914 | | $ 12,596 |
| State and political subdivisions | 62,703 | 1,537 | | 64,240 |
| Mortgage-backed securities | 234 | 7 | | 241 |
| Other | 137,677 | 2,112 | $1,188 | 138,601 |
| Total | $212,296 | $4,570 | $1,188 | $215,678 |

The amortized cost and estimated fair value of debt securities held to maturity at September 30, 2007 and December 31, 2006 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.

| | September 30, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $ 3,400 | $ 3,410 | $ 1,726 | $ 1,741 |
| Due after one year through five years | 42,088 | 42,817 | 42,016 | 43,116 |
| Due after five years through ten years | 25,136 | 25,789 | 27,357 | 28,219 |
| Due after ten years | 87,628 | 86,334 | 141,197 | 142,602 |
| Total | $158,252 | $158,350 | $212,296 | $215,678 |

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 $959,253 and $948,623 at September 30, 2007 and December 31, 2006, respectively.

**4. LOANS**

Major classifications of loans are as follows:

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Commercial, financial and agricultural | $ 1,071,706 | $ 954,024 |
| Real estate: | | |
| Single-family residential | 1,877,510 | 1,720,794 |
| Commercial | 1,442,874 | 1,146,007 |
| Construction | 640,116 | 523,042 |
| Other | 189,137 | 119,973 |
| Installment | 371,902 | 349,868 |
| Total gross loans | $ 5,593,245 | $ 4,813,708 |

The table above does not include loans held for sale of $954 and $2,041 at September 30, 2007 and December 31, 2006, respectively. Loans held for sale consist of single-family residential real estate loans originated for sale in the secondary market.

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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 $114,492 and $122,150 at September 30, 2007 and December 31, 2006, 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 $8,264 and $8,742 at September 30, 2007 and December 31, 2006, respectively, is separately classified 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 allowance for lending-related commitments are reported in the provision for credit losses in the income statement.

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Balance at beginning of period | $ 51,220 | $ 52,895 | $ 52,371 | $ 52,871 |
| Allowance of purchased subsidiaries | 7,648 | | 7,648 | |
| Provision for credit losses | 1,550 | 571 | 2,750 | 1,169 |
| | 60,418 | 53,466 | 62,769 | 54,040 |
| Loans charged-off | (2,104) | (1,168) | (4,952) | (2,482) |
| Less: Recoveries | 303 | 238 | 800 | 978 |
| Net Charge-offs | (1,801) | (930) | (4,152) | (1,504) |
| Balance at end of period | $ 58,617 | $ 52,536 | $ 58,617 | $ 52,536 |

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**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:

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| Nonaccrual loans | $ 8,958 | $ 5,755 |
| Loans past due 90 days or more and still accruing interest | 13,827 | 8,432 |
| Total nonperforming loans | 22,785 | 14,187 |
| Other real estate owned | 5,338 | 4,231 |
| Total nonperforming assets | $ 28,123 | $ 18,418 |

Loans are designated as impaired when, in the opinion of management, the collection of principal and interest in accordance with the contractual terms of the loan agreement is not probable. At September 30, 2007, the recorded investment in loans that were considered to be impaired was $29,848 (of which $8,958 were on a nonaccrual basis). Included in this amount is $23,296 of impaired loans for which the related allowance for credit losses is $4,083 and $6,552 of impaired loans that do not have an allowance for credit losses. At December 31, 2006, the recorded investment in loans that were considered to be impaired was $21,963 (of which $5,755 were on a nonaccrual basis). Included in this amount were $15,193 of impaired loans for which the related allowance for credit losses was $3,000, and $6,770 of impaired loans that did not have an allowance for credit losses. The average recorded investment in impaired loans during the nine months ended September 30, 2007 and for the year ended December 31, 2006 was approximately $27,347 and $26,503, respectively.

United recognized interest income on impaired loans of approximately $481 and $1,151 for the quarter and nine months ended September 30, 2007, respectively, and $467 and $1,726 for the quarter and nine months ended September 30, 2006, 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 $496 and $1,464 for the quarter and nine months ended September 30, 2007, respectively, and $376 and $1,041 for the quarter and nine months ended September 30, 2006, respectively.

Statement of Position 03-3 (SOP 03-3), Accounting for Certain Loans or Debt Securities Acquired in a Transfer requires acquired impaired loans for which it is probable that the investor will be unable to collect

all contractually required payments receivable to be recorded at the present value of amounts expected to be received and prohibits carrying over or creating valuation allowances in the initial accounting for these loans. Loans carried at fair value, mortgage loans held for sale, and loans to borrowers in good standing under revolving credit agreements are excluded from the scope of SOP 03-3. The amount of impaired loans acquired from Premier on July 14, 2007 was not significant. Additional disclosures required by SOP 03-3 are not provided because the amount was not significant.

**7. INTANGIBLE ASSETS**

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

| | As of September 30, 2007 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets: | | | |
| Core deposit intangible assets | $ 30,995 | ($19,040) | $ 11,955 |
| Goodwill not subject to amortization | | | $ 312,857 |

| | As of December 31, 2006 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets: | | | |
| Core deposit intangible assets | $ 19,890 | ($17,250) | $ 2,640 |
| Goodwill not subject to amortization | | | $ 167,421 |

During the third quarter of 2007, United acquired Premier adding preliminary amounts of $147,879 to goodwill and $11,105 to core deposit intangible assets.

United incurred amortization expense of $1,000 and $1,790 for the quarter and nine months ended September 30, 2007, respectively, and $459 and $1,453 for the quarter and nine months ended September 30, 2006, respectively, related to intangible assets. The table presented below sets forth the anticipated amortization expense for intangible assets for the years subsequent to 2006:

| Year | Amount |
|---|---|
| 2007 | $ 2,853 |
| 2008 | 3,509 |
| 2009 | 2,561 |
| 2010 | 1,884 |
| 2011+ | 2,938 |

**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 September 30, 2007, federal funds purchased were $78,405 while securities sold under agreements to repurchase were $575,206.

United has available funds of $70,000 with two unrelated financial institutions to provide for general liquidity needs. Both are unsecured revolving lines of credit. One has a one-year renewable term while the other line of credit has a two-year renewable term. Each line of credit carries an indexed floating rate of interest. At September 30, 2007, United had no outstanding balance under these lines of credit.

In July of 2007, United borrowed funds totaling $50,000 on these two lines of credit to temporarily fund a portion of the cash consideration for the Premier acquisition. At the funding date, the weighted-average interest rate was 5.97% on the borrowings. United repaid the amounts in September 2007.

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 September 30, 2007, United Bank (VA) had an outstanding balance of $2,007 and had additional funding available of $2,993.

**9. LONG-TERM BORROWINGS**

United s subsidiary banks are members of the Federal Home Loan Bank (FHLB). Membership in the FHLB makes available short-term and long-term borrowings from collateralized advances. All FHLB borrowings are collateralized by a mix of single-family residential mortgage loans, commercial loans and investment securities. At September 30, 2007, United had an unused borrowing amount of $1,196,660 available subject to delivery of collateral after certain trigger points.

Advances may be called by the FHLB or redeemed by United based on predefined factors and penalties. In June 2007, United prepaid two $100 million long-term FHLB advances and terminated two interest rate swaps associated with the advances. United recognized a $787 thousand before-tax gain on the termination of the swaps. In addition, United prepaid approximately $28.9 million of a $100 million long-term convertible FHLB advance. United incurred a before-tax charge of approximately $786 thousand to prepay the debt. United replaced the $228.9 million of debt with a 3-year FHLB advance and an associated interest rate swap with a total effective cost of 5.25%. The debt prepaid had an average total effective cost of 5.40% and a remaining maturity of 6.25 years. United s management believes that the prepayment of these borrowings and the termination of the interest rate swaps will improve United s future net interest margin and enhance future earnings as well as reducing interest rate risk by shortening the term.

During the first quarter of 2006, as part of the balance sheet repositioning, United prepaid a $50 million variable interest rate FHLB advance and terminated a fixed interest rate swap associated with the advance. United recognized a $3.06 million before-tax gain on the termination of the swap. No prepayment penalty was incurred in connection with the early repayment of the advance.

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At September 30, 2007, $643,672 of FHLB advances with a weighted-average interest rate of 5.18% is scheduled to mature within the next twelve years.
The scheduled maturities of borrowings are as follows:

| Year | Amount |
|---|---|
| 2007 | $ 75,000 |
| 2008 | 110,437 |
| 2009 | 50,000 |
| 2010 | 355,000 |
| 2011 and thereafter | 53,235 |
| Total | $ 643,672 |

As of September 30, 2007, United had a total of eleven statutory business trusts that were formed for the purpose of issuing or participating in pools of trust preferred capital securities (Capital Securities) with the proceeds invested in junior subordinated debt securities (Debentures) of United. The Debentures, which are subordinate and junior in right of payment to all present and future senior indebtedness and certain other financial obligations of United, are the sole assets of the trusts and United s payment under the Debentures is the sole source of revenue for the trusts. At September 30, 2007 and December 31, 2006, the outstanding balances of the Debentures were $206,308 and $85,301 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 Capital 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.
In July of 2007, United, through a wholly-owned subsidiary, United Statutory Trust V, participated in a Capital Securities offering of a third party in the amount of $50 million to help fund the acquisition of Premier. The proceeds were invested in junior subordinated debt of United paying interest quarterly at a fixed rate of 6.67% for the first five years and then at a floating rate equal to 3-month LIBOR plus 155 basis points thereafter.
In September of 2007, United, through a wholly-owned subsidiary, United Statutory Trust VI, participated in a Capital Securities offering of a third party in the amount of $30 million to help repay the short-term borrowings used to temporarily fund the acquisition of Premier. The proceeds were invested in junior subordinated debt of United paying interest quarterly at a fixed rate of 6.60% for the first five years and then at a floating rate equal 3 month LIBOR plus 130 basis points thereafter. Under the terms of the transactions, both Capital Securities will have a maturity of 30 years, and are redeemable after five years with certain

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exceptions. For regulatory purposes, both the $50 million and the $30 million issuance of Capital Securities qualify as Tier I capital in accordance with current regulatory reporting requirements.

As part of the acquisition of Premier on July 14, 2007, United assumed all the obligations of Premier and its subsidiaries. Premier had a total of four statutory business trusts that were formed for the purpose of issuing or participating in Capital Securities with the proceeds invested in Debentures of Premier. At merger, the outstanding balance of Premier s Debentures was approximately $39 million. The Capital Securities assumed in the Premier acquisition qualify as Tier 1 capital of United under current regulatory reporting requirements.

**10. COMMITMENTS AND CONTINGENT LIABILITIES**

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily, and historically do not, represent future cash requirements. The amount of collateral obtained, if deemed necessary upon the extension of credit, is based on management s credit evaluation of the counterparty. United had $1,903,091 and $1,734,299 of loan commitments outstanding as of September 30, 2007 and December 31, 2006, 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 $1,105 and $525 as of September 30, 2007 and December 31, 2006, 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 $144,632 and $112,367 as of September 30, 2007 and December 31, 2006, 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.

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**11. DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

Under the provisions of SFAS No. 133, United has both fair value hedges and cash flow hedges as of September 30, 2007. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivative instruments designated in hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

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

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

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

In June 2007, United terminated two fixed interest rate swap designated as cash flow hedges associated

with the repayment of two $100 million variable interest rate FHLB advances that were being hedged. United recognized a $787 thousand before-tax gain on the termination of the swaps. In addition, United prepaid approximately $28.9 million of a $100 million long-term convertible FHLB advance. United replaced the $228.9 million of debt with a 3-year variable-interest rate FHLB advance and an associated fixed interest rate swap designated as a cash flow hedge. During the first quarter of 2006, as part of a balance sheet repositioning strategy, United terminated a fixed interest rate swap designated as a cash flow hedge associated with the repayment of a $50 million variable interest rate FHLB advance that was being hedged. United recognized a $3.06 million before-tax gain on the termination of the swap.

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 September 30, 2007:

**Derivative Classifications and Hedging Relationships**
**September 30, 2007**

| | **Notional** | **Derivative** | |
|---|---|---|---|
| | **Amount** | **Asset** | **Liability** |
| Derivatives Designated as Fair Value Hedges: | | | |
| Hedging Commercial Loans | $ 14,187 | $ 50 | $ 218 |
| **Total Derivatives Designated as Fair Value Hedges**: | $ 14,187 | $ 50 | $ 218 |
| Derivatives Designated as Cash Flow Hedges: | | | |
| Hedging FHLB Borrowings | $ 228,900 | $ | $ 3,957 |
| **Total Derivatives Designated as Cash Flow Hedges:** | $ 228,900 | $ | $ 3,957 |
| **Total Derivatives Used in Interest Rate Risk Management and Designated in SFAS 133 Relationships:** | $ 243,087 | $ 50 | $ 4,175 |

**Derivative Instruments**
**September 30, 2007**

| | **Notional Amount** | **Average Receive Rate** | **Average Pay Rate** | **Estimated Fair Value** |
|---|---|---|---|---|
| **Fair Value Hedges:** | | | | |
| Pay Fixed Swap (Commercial Loans) | $ 14,187 | | 6.27% | ($168) |
| **Total Derivatives Used in Fair Value Hedges** | $ 14,187 | | | ($168) |
| **Cash Flow Hedges:** | | | | |
| Pay Fixed Swap (FHLB Borrowing) | $ 228,900 | | 5.26% | ($3,957) |
| **Total Derivatives Used in Cash Flow Hedges** | $ 228,900 | | | ($3,957) |

| | | |
|---|---|---|
| **Total Derivatives Used for Interest Rate Risk Management and Designated in SFAS 133 Relationships** | $ 243,087 | ($4,125) |

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**12. STOCK BASED COMPENSATION**

On January 1, 2006, United adopted Statement of Financial Accounting Standards 123R (SFAS 123R) using the modified prospective transition method. Under this transition method, compensation cost to be recognized beginning in the first quarter of 2006 included: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods will not be restated.

On December 30, 2005, the Executive Committee of the Board of Directors of United approved the accelerated vesting of all unvested stock options granted prior to December 30, 2005 to United employees, including Executive Officers, under the 2001 Stock Option Plan. As a result of the vesting acceleration, options to purchase 547,626 shares of United common stock became exercisable immediately. United recognized a pre-tax expense of approximately $21 thousand in the fourth quarter of 2005 for those accelerated options that were in-the-money , that is, the option s exercise price was less than the market value of United s stock. Due to the modification to accelerate the unvested options, United did not recognize any compensation cost for year 2006. In addition, no new options were granted during 2006 and the first nine months of 2007. Accordingly, the adoption of SFAS 123R had no impact on United s consolidated statements of income or net income per share.

At its March 20, 2006 regular meeting, United s Board of Directors approved the adoption of the 2006 Stock Option Plan and directed that the 2006 Stock Option Plan be submitted to United s shareholders for approval at its Annual Meeting of Shareholders (the 2006 Annual Meeting). At the 2006 Annual Meeting, held on May 15, 2006, United s shareholders approved the 2006 Stock Option Plan. The 2006 Stock Option Plan thus became effective at the time of the shareholders approval. A total of 1,500,000 shares of United s authorized but unissued common stock are allocated for the 2006 Stock Option Plan. Each plan year, 400,000 options will be available for award to eligible employees; however, not all 400,000 options are required to be awarded in that year. All options granted under the 2006 Stock Option Plan will be non-statutory stock options (NSOs), i.e. options that do not qualify as incentive stock options under Section 422 of the Internal Revenue Code. Subject to certain change in control provisions, recipients of options will be fully vested in and permitted to exercise options granted under the 2006 Stock Option Plan three years from the grant date. As of September 30, 2007, no shares have been granted under the 2006 Stock Option Plan. Any stock options granted under the 2006 Stock Option Plan in the future will be subject to the provisions of SFAS 123R.

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

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A summary of option activity under the Plans as of September 30, 2007, and the changes during the first nine months of 2007 are presented below:

| | Nine Months Ended September 30, 2007 | | | |
|---|---|---|---|---|
| | | | Weighted Average | |
| | | Aggregate Intrinsic | Remaining Contractual Term | Exercise |
| | Shares | Value | (Yrs.) | Price |
| Outstanding at January 1, 2007 | 1,732,200 | | | $ 28.00 |
| Granted | | | | |
| Exercised | 183,831 | | | 18.50 |
| Assumed in acquisition of subsidiary | 224,528 | | | 13.95 |
| Forfeited or expired | 24,050 | | | 32.11 |
| Outstanding at September 30, 2007 | 1,748,847 | $ 9,281 | 5.1 | $ 27.14 |
| Exercisable at September 30, 2007 | 1,748,847 | $ 9,281 | 5.1 | $ 27.14 |

In addition to the stock options detailed above, United has outstanding stock options related to a deferred compensation plan assumed in the 1998 merger with George Mason Bankshares, Inc. (GMBS). The stock options granted under this deferred compensation plan were to former directors of GMBS. These options carry no exercise cost, contain no expiration date, and are eligible for dividends. Other than additional options granted through reinvestment of dividends received, United does not issue additional options under this deferred compensation plan. Options outstanding at September 30, 2007 were 19,547. Options granted through the reinvestment of dividends during the first nine months of 2007 were 460. No options were exercised during the first nine months of 2007. United records compensation expense for this plan based on the number of options outstanding and United s quoted market price of its common stock with an equivalent adjustment to the associated liability.

Cash received from options exercised under the Plans for the nine months ended September 30, 2007 and 2006 was $2.42 million and $5.56 million, respectively. During the nine months ended September 30, 2007 and 2006, 183,831 and 235,547 shares, respectively, were issued in connection with stock option exercises. All shares issued in connection with stock option exercises were issued from available treasury stock for the nine months ended September 30, 2007 and 2006. The total intrinsic value of options exercised under the Plans during the nine months ended September 30, 2007 and 2006 was $2.74 million and $3.10 million, respectively.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under previous standards. 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 recognized cash flows from financing activities of $796 thousand and $499 thousand from excess tax benefits related to share-based compensation for the nine months ended September 30, 2007 and 2006, respectively.

**13. EMPLOYEE BENEFIT PLANS**

United has a defined benefit retirement plan covering substantially all employees. Pension benefits are based

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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.

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

On December 31, 2006, United adopted the recognition and disclosure provision of Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans . SFAS 158 requires United to recognize the funded status of its defined benefit post-retirement plan in the statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the initial adoption of SFAS 87, all of which were previously netted against the plan s funded status in United s statement of financial positions pursuant to the provisions of SFAS 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to United s historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of Statement 158.

The incremental effects of adopting the provision of Statement 158 on United s statement of financial position at December 31, 2006 are presented in the following table. The adoption of Statement 158 had no effect on United s consolidated statement of income for the year of 2006 and it will not affect United s operating results in future periods.

| | At December 31, 2006 | | |
|---|---|---|---|
| | **Prior to Adopting Statement 158** | **Effect of Adopting Statement 158** | **As Reported at December 31, 2006** |
| Net pension asset | 40,165 | (13,217) | $ 26,948 |
| Deferred income taxes | 8,058 | 5,206 | 13,264 |
| Accumulated other comprehensive income | (7,780) | (8,011) | (15,791) |

Included in accumulated other comprehensive income at December 31, 2006 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized transition asset of $701 ($425 net of

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tax), unrecognized prior service costs of $9 ($6 net of tax) and unrecognized actuarial losses of $13,909 ($8,430 net of tax). The expected amortization of the transition asset, prior service cost, and actuarial loss included in accumulated other comprehensive income to be recognized in the Income Statement for the year ended December 31, 2007 is $175 ($105 net of tax), $1 ($1 net of tax), and $593 ($356 net of tax), respectively.

Net periodic pension cost for the three and nine months ended September 30, 2007 and 2006 included the following components:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (In thousands) | **2007** | **2006** | **2007** | **2006** |
| Service cost | $ 543 | $ 540 | $ 1,611 | $ 1,602 |
| Interest cost | 876 | 818 | 2,599 | 2,427 |
| Expected return on plan assets | (1,818) | (1,197) | (5,395) | (3,552) |
| Amortization of transition asset | (44) | (44) | (131) | (131) |
| Recognized net actuarial loss | 150 | 233 | 444 | 693 |
| Amortization of prior service cost | 1 | 1 | 1 | 1 |
| Net periodic pension (benefit) cost | $ (292) | $ 351 | $ (871) | $ 1,040 |
| **Weighted-Average Assumptions:** | | | | |
| Discount rate | 6.00% | 6.00% | 6.00% | 6.00% |
| Expected return on assets | 8.50% | 8.50% | 8.50% | 8.50% |
| Rate of compensation increase | 3.25% | 3.25% | 3.25% | 3.25% |

## 14. INCOME TAXES

In July 2006, the FASB issued Interpretation (FIN) No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes , to address concerns regarding comparability in reported tax assets and liabilities in an enterprise s financial statements resulting from a lack of specific guidance in FASB Statement No. 109 (SFAS 109), Accounting for Income Taxes . FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken on a tax return, in order for those tax positions to be recognized in the financial statements. United has adopted FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 was $300 thousand which was recorded in retained earnings. Also, certain amounts have been reclassified in the statement of financial position in order to comply with the requirements of the statement.

As of September 30, 2007, United has provided a liability for $5.9 million of unrecognized tax benefits related to various federal and state income tax matters. Of this amount, the amount that would impact United s effective tax rate, if recognized, is $5.7 million. Over the next 12 months, the statute of limitations will close on certain income tax returns filed by an acquired subsidiary.

United is currently open to audit under the statute of limitations by the Internal Revenue Service and State Taxing authorities for the years ended December 31, 2004 through 2006. During the third quarter of 2007, United reduced its income tax reserve by $1.06 million due to the expiration of the statute of limitations for examinations of certain years.

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As of January 1, 2007, United accrued $450 thousand of interest related to uncertain tax positions. As of September 30, 2007, the total amount of accrued interest was $458 thousand. United accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

**15. COMPREHENSIVE INCOME**

The components of total comprehensive income for the three and nine months ended September 30, 2007 and 2006 are as follows:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (In thousands) | **2007** | **2006** | **2007** | **2006** |
| Net Income | $ 25,803 | $ 14,165 | $ 74,722 | $ 64,234 |
| Securities available for sale: | | | | |
| Net change in unrealized losses on available for sale securities arising during the period | 7,412 | 13,872 | 3,217 | 1,452 |
| Related income tax effect | (2,594) | (4,855) | (1,126) | (508) |
| Net reclassification adjustment for (gains) losses included in net income | (172) | 134 | (494) | 3,071 |
| Related income tax expense (benefit) | 60 | (47) | 173 | (1,075) |
| Net effect on other comprehensive loss | 4,706 | 9,104 | 1,770 | 2,940 |
| Securities held to maturity: | | | | |
| Unrealized loss related to the call of securities previously transferred from the available for sale to the held to maturity investment portfolio | 29 | | 1,197 | |
| Related income tax benefit | (10) | | (419) | |
| Accretion on the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio prior to call or maturity | 70 | 165 | 312 | 511 |
| Related income tax expense | (24) | (58) | (109) | (179) |
| Net effect on other comprehensive income | 65 | 107 | 981 | 332 |
| Cash flow hedge derivatives: | | | | |
| Unrealized gain (loss) on cash flow hedge | (4.018) | (2,500) | (4,572) | (2,499) |
| Related income tax (benefit) expense | 1,406 | 875 | 1,600 | 874 |
| Termination of cash flow hedge | | | 2,952 | (2,077) |
| Related income tax expense | | | (1,033) | 727 |
| Net effect on other comprehensive income | (2,612) | (1,625) | (1,053) | (2,975) |
| FASB 158 pension plan: | | | | |
| Amortization of transition asset | (44) | | (131) | |
| Related income tax expense | 16 | | 52 | |
| Amortization of prior service cost | 1 | | 1 | |
| Related income tax benefit | | | | |
| Recognized net actuarial loss | 150 | | 444 | |
| Related income tax benefit | (60) | | (177) | |

| | | | | |
|---|---|---|---|---|
| Net effect on other comprehensive income | 63 | | 189 | |
| Total change in other comprehensive income | 2,222 | 7,586 | 1,887 | 297 |
| Total Comprehensive Income | $ 28,025 | $ 21,751 | $ 76,609 | $ 64,531 |

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**16. EARNINGS PER SHARE**

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| **Basic** | | | | |
| Net Income | $ 25,803 | $ 14,165 | $ 74,722 | $ 64,234 |
| Average common shares outstanding | 42,731,909 | 41,373,945 | 41,458,388 | 41,658,678 |
| Earnings per basic common share | $ 0.60 | $ 0.34 | $ 1.80 | $ 1.54 |
| **Diluted** | | | | |
| Net Income | $ 25,803 | $ 14,165 | $ 74,722 | $ 64,234 |
| Average common shares outstanding | 42,731,909 | 41,373,945 | 41,458,388 | 41,658,678 |
| Equivalents from stock options | 266,575 | 401,166 | 353,105 | 417,184 |
| Average diluted shares outstanding | 42,998,484 | 41,775,111 | 41,811,493 | 42,075,862 |
| Earnings per diluted common share | $ 0.60 | $ 0.34 | $ 1.79 | $ 1.53 |

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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, the valuation of derivative instruments, and the calculation of the income tax provision to be the accounting areas that require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for credit losses represents management s estimate of the probable credit losses inherent in the loan portfolio. Management s evaluation of the adequacy of the allowance for credit losses and the appropriate provision for credit losses is based on a quarterly evaluation of the portfolio. This evaluation is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change. The amounts allocated to specific credits and loan pools grouped by similar risk characteristics are reviewed on a quarterly basis and adjusted as necessary based upon subsequent changes in circumstances. In determining the components of the allowance for credit losses, management considers the risk arising in part from, but not limited to, charge-off and delinquency trends, current economic and business conditions, lending policies and procedures, the size and risk characteristics of the loan portfolio, concentrations of credit, and other

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various factors. Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. The methodology used to determine the allowance for credit losses is described in Note 5 to the unaudited consolidated financial statements. A discussion of the factors leading to changes in the amount of the allowance for credit losses is included in the Provision for Credit Losses section of this Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

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

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

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 September 30, 2007 were $7.69 billion, an increase of $968.09 million or 14.41% from year-end 2006, primarily the result of the acquisition of Premier Community Bankshares, Inc. (Premier) on July 14, 2007. Investment securities increased $47.80 million or 3.75%, total portfolio loans increased $779.58 million or 16.22%, bank premises and equipment increased $23.92 million or 62.75%, goodwill increased $145.44 million or 86.87% and other assets increased $29.40 million or 16.52% due primarily to the Premier merger. Cash and cash equivalents decreased $54.55 million or 21.06%. The increase in total assets is reflected in a corresponding increase in total liabilities of $846.91 million or 13.92% from year-end 2006. The increase in total liabilities was due mainly to an increase of $518.03 million or 10.73% and $324.28 million or 27.45% in deposits and borrowings, respectively, mainly due to the Premier acquisition. Shareholders equity increased $121.18 million or 19.11% from year-end 2006 due primarily to the

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

**Cash and Cash Equivalents**

Cash and cash equivalents decreased $54.55 million or 21.06% during the first nine months of 2007. Of this total decrease, cash and due from banks decreased $50.33 million or 23.14% and federal funds sold decreased $6.13 million or 32.99%. Interest-bearing deposits with other banks increased $1.91 million or 8.33%. During the first nine months of 2007, net cash of $67.82 million was provided by operating activities. Net cash of $78.27 million and $44.11 million was used in investing and financing activities, respectively. See the unaudited Consolidated Statements of Cash Flows for data on cash and cash equivalents provided and used in operating, investing and financing activities for the first nine months of 2007 and 2006.

**Securities**

Total investment securities at September 30, 2007 increased $47.80 million or 3.75% from year-end 2006. Premier added approximately $36 million in investment securities, including purchase accounting amounts, at merger. Securities available for sale increased $88.30 million or 8.74%. This change in securities available for sale reflects $502.61 million in sales, maturities and calls of securities, $558.41 million in purchases, and an increase of $2.72 million in market value. Premier added approximately $31 million in available for sale securities. Securities held to maturity decreased $54.04 million or 25.46% from year-end 2006 due to calls and maturities of securities. 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 $1.09 million or 53.26% as loan sales in the secondary market exceeded originations during the first nine months of 2007. Portfolio loans, net of unearned income, increased $779.58 million or 16.22% from year-end 2006 mainly as a result of the Premier acquisition which added approximately $751 million, including purchase accounting amounts, in portfolio loans. Since year-end 2006, commercial real estate loans and commercial loans (not secured by real estate) increased $296.87 million or 25.90% and $117.68 million or 12.34%, respectively. Loans secured by other real estate increased $69.16 million or 57.65%, construction loans increased $117.07 million or 22.38%, single-family residential real estate loans increased $156.72 million or 9.11%, and consumer loans increased $22.03 million or 6.30%. The increases were due primarily to the Premier merger.

The table below summarizes the changes in the loan categories since year-end 2006:

| (Dollars in thousands) | September 30 2007 | December 31 2006 | $ Change | % Change |
|---|---|---|---|---|
| Loans held for sale | $ 954 | $ 2,041 | $ (1,087) | (53.26%) |
| Commercial, financial, and agricultural | $ 1,071,706 | $ 954,024 | $ 117,682 | 12.34% |
| Real Estate: | | | | |
| Single family residential | 1,877,510 | 1,720,794 | 156,716 | 9.11% |
| Commercial | 1,442,874 | 1,146,007 | 296,867 | 25.90% |
| Construction | 640,116 | 523,042 | 117,074 | 22.38% |
| Other | 189,137 | 119,973 | 69,164 | 57.65% |
| Consumer | 371,902 | 349,868 | 22,034 | 6.30% |
| Less: Unearned income | (6,919) | (6,961) | 42 | (0.60%) |
| Total Loans, net of unearned income | $ 5,586,326 | $ 4,806,747 | $ 779,579 | 16.22% |

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

**Goodwill**

Goodwill increased $145.44 million or 86.87% since December 31, 2006. The Premier acquisition added approximately $148 million. Goodwill was reduced in the third quarter of 2007 by $2.28 million due to expiration of the statute of limitations for income tax matters related to a prior acquisition that were previously recorded as a part of the purchase price allocation.

**Other Assets**

Other assets increased $29.40 million or 16.52% from year-end 2006. The Premier merger added approximately $12 million in other assets at merger plus an additional $11.11 million in core deposit intangibles. The cash surrender value of bank-owned life insurance policies increased $10.56 million as approximately $7 million was acquired from Premier while the remaining increase was due to an increase in the cash surrender value. Investment in nonconsolidated subsidiaries increased $3.76 million during the year due to two new statutory trust subsidiaries formed in the third quarter of 2007 for the purpose of participating in pools of trust preferred capital securities.

**Deposits**

Total deposits at September 30, 2007 increased $518.03 million or 10.73% since year-end 2006 as a result of the Premier acquisition. Premier added approximately $717 million in deposits, including purchase accounting amounts. In terms of composition, noninterest-bearing deposits decreased $28.51 million or 3.16% while interest-bearing deposits increased $546.55 million or 13.92% from year-end 2006.

The decrease in noninterest-bearing deposits was due mainly to a decrease in official checks of $44.42 million as a result of a large amount of loan proceeds checks at year-end 2006. Commercial noninterest-bearing deposits increased $22.05 million or 3.85% due mainly to the Premier acquisition. Personal noninterest-bearing deposits declined $3.23 million or 1.31% as customers shifted money into interest-bearing products.

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The increase in interest-bearing deposits was due mainly to the Premier merger as all major categories of interest-bearing deposits increased. Time deposits under $100,000 increased $272.26 million, time deposits over $100,000 increased $163.69 million, interest-bearing money market accounts (MMDAs) increased $60.23 million, NOW accounts increased $34.40 million and regular savings increased $15.96 million.
The following table summarizes the changes in the deposit categories since year-end 2006:

| (Dollars In thousands) | September 30 2007 | December 31 2006 | $ Change | % Change |
|---|---|---|---|---|
| Demand deposits | $ 365,005 | $ 429,504 | $ (64,499) | (15.02%) |
| Interest-bearing checking | 194,028 | 159,628 | 34,400 | 21.55% |
| Regular savings | 333,602 | 317,642 | 15,960 | 5.02% |
| Money market accounts | 1,925,523 | 1,829,300 | 96,223 | 5.26% |
| Time deposits under $100,000 | 1,590,102 | 1,317,839 | 272,263 | 20.66% |
| Time deposits over $100,000 | 937,966 | 774,279 | 163,687 | 21.14% |
| Total deposits | $ 5,346,226 | $ 4,828,192 | $ 518,034 | 10.73% |

**Borrowings**

Total borrowings at September 30, 2007 increased $324.28 million or 27.45% during the first nine months of 2007. Premier added approximately $114 million at merger. Since year-end 2006, short-term borrowings increased $48.35 million or 7.09% due to an increase of $114.35 million in securities sold under agreements to repurchase. This increase was partially offset by reductions of $45 million in overnight FHLB borrowings and $19.32 million in federal funds purchased. Premier added approximately $20 million in short-term borrowings at merger. Long-term borrowings increased $275.93 million or 55.27% since year-end 2006 as long term FHLB advances increased $154.77 million or 37.39%. Premier added approximately $55 million in FHLB advances. During the third quarter of 2007, United participated in two pools of trust preferred capital securities totaling $80 million with the proceeds invested in junior subordinated debt securities of United. The proceeds of the issuance were used to help fund the cash portion of the acquisition price for Premier. In addition, United assumed approximately $39 million of junior subordinated debt securities in the Premier merger.

In June 2007, United prepaid two $100 million long-term FHLB advances and terminated two interest rate swaps associated with the advances. In addition, United prepaid approximately $28.9 million of a $100 million long-term convertible FHLB advance. United incurred a before-tax charge of approximately $786 thousand to prepay the debt and a before-tax gain of $787 thousand on the termination of the interest rate swaps. United replaced the $228.9 million of debt with a 3-year FHLB advance and an associated interest rate swap.

The table below summarizes the change in the borrowing categories since year-end 2006:

| (Dollars In thousands) | September 30 2007 | December 31 2006 | $ Change | % Change |
|---|---|---|---|---|
| Federal funds purchased | $ 78,405 | $ 97,720 | $ (19,315) | (19.77%) |
| Securities sold under agreements to repurchase | 575,206 | 460,858 | 114,348 | 24.81% |
| Overnight FHLB advances | 75,000 | 120,000 | (45,000) | (37.50%) |
| TT&L note option | 2,007 | 3,688 | (1,681) | (45.58%) |
| Long-term FHLB advances | 568,672 | 413,899 | 154,773 | 37.39% |
| Issuances of trust preferred capital securities | 206,308 | 85,301 | 121,007 | 141.86% |
| Obligation under a capital lease agreement | 151 | | 151 | 100.00% |
| Total borrowings | $ 1,505,749 | $ 1,181,466 | $ 324,283 | 27.45% |

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

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities at September 30, 2007 increased $5.07 million or 7.79% from year-end 2006. Premier added approximately $12 million at merger. Otherwise, the derivative liability associated with interest rate swaps increased $1.70 million due to a change in value. Partially offsetting these increases was a decrease of $8.99 million in income taxes payable due to a timing difference in payments.

**Shareholders Equity**

Shareholders equity at September 30, 2007 increased $121.18 million or 19.11% from year-end 2006 mainly as a result of the Premier acquisition. The Premier transaction added approximately $102 million as 2,684,068 shares were issued from treasury for the merger at a cost of $93.71 million. Earnings net of dividends declared for the first nine months of 2007 were $39.81 million.

During the first nine months of 2007, a total of 718,500 shares at a cost of $24.87 million were repurchased under a plan approved by United s Board of Directors in May of 2006 to repurchase up to 1.7 million shares of United s common stock on the open market. Since its inception, United has repurchased a total of 1,377,800 shares under the plan as of September 30, 2007.

Accumulated other comprehensive income increased $1.89 million due mainly to an increase of $1.77 million, net of deferred income taxes, in the fair value of United s available for sale investment portfolio, which was partially offset by a decrease of $1.05 million, net of deferred income taxes, in the fair value adjustments on cash flow hedges.

**RESULTS OF OPERATIONS**

**Overview**

Net income for the first nine months and third quarter of 2007 was $74.72 million or $1.79 per diluted share and $25.80 million or $0.60 per diluted share, respectively. As previously mentioned, United completed its

acquisition of Premier Community Bankshares, Inc. (Premier) during the third quarter of 2007. The financial results of Premier are included in United s results from the July 14, 2007 acquisition date.

Net income for the first nine months and third quarter of 2006 was $64.23 million or $1.53 per diluted share and $14.17 million or $0.34 per diluted share, respectively. The results for the third quarter of 2006 included significant charges to prepay certain Federal Home Loan Bank (FHLB) long-term advances and terminate interest rate swaps associated with these advances. In addition to these significant charges, the results for the first nine months of 2006 included the results of a repositioning of United s balance sheet in the first quarter of 2006. The balance sheet repositioning resulted in a loss from the sale of investment securities and a gain on the termination of an interest rate swap associated with the prepayment of an FHLB advance. Further information is provided in a more detailed discussion below.

United s annualized return on average assets for the first nine months of 2007 was 1.45% and return on average shareholders equity was 14.81% as compared to 1.29% and 13.38% for the first nine months of 2006. For the third quarter of 2007, United s annualized return on average assets was 1.37% while the return on average equity was 13.91% as compared to 0.85% and 8.83%, respectively, for the third quarter of 2006.

Tax-equivalent net interest income for the first nine months of 2007 was $176.90 million which was flat from the prior year s first nine months. Tax-equivalent net interest income increased $4.50 million or 7.65% for the third quarter of 2007 as compared to the same period of 2006. The provision for credit losses was $2.75 million for the first nine months of 2007 as compared to $1.17 million for the first nine months of 2006. For the quarters ended September 30, 2007 and 2006, the provision for credit losses was $1.55 million and $571 thousand, respectively.

Noninterest income was $48.77 million for the first nine months of 2007, up $14.47 million from the first nine months of 2006. Included in total noninterest income for the first nine months of 2007 was a before-tax gain of $787 thousand on the termination of interest rate swaps associated with the prepayment of FHLB advances as compared to a before-tax loss of $4.60 million for the first nine months of 2006. In addition, United s income from investment security transactions increased $3.57 million for the first nine months of 2007 as compared to the same period last year as United incurred a net loss on security transactions of $2.93 million in the first quarter of 2006 due to an other than temporary impairment on approximately $86 million of low-yielding fixed rate investment securities which United subsequently sold as part of its balance sheet repositioning. For the third quarter of 2007, noninterest income was $17.33 million, an increase of $11.11 million from the third quarter of 2006. The increase resulted mainly from a before-tax loss of $7.66 million on the termination of an interest rate swap associated with the prepayment of an FHLB advance during the third quarter of 2006.

Noninterest expense decreased $1.55 million or 1.48% for the first nine months of 2007 compared to the same period in 2006. Results for the first nine months of 2007 included $1.33 million of expenses and integration costs related to the Premier merger. Results for the first nine months of 2007 and 2006 both included penalties to prepay FHLB advances of $786 thousand and $8.26 million, respectively. For the third quarter of 2007, noninterest expense decreased $1.19 million or 2.96% from the third quarter of 2006. Included in the results for the third quarter of 2007 were expenses related to the Premier merger while the results for the third quarter of 2006 included penalties to prepay FHLB advances. Merger expenses and related integration costs of the Premier acquisition were $1.01 million for the third quarter of 2007. United s

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effective tax rate was 30.55% and 31.74% for the first nine months of 2007 and 2006, respectively, and 28.06% and 30.42% for the third quarter of 2007 and 2006, respectively. During the third quarter of 2007, United reduced its income tax reserve by $1.06 million due to the expiration of the statute of limitations for examinations of certain years which resulted in a lower estimated effective tax rate for 2007.

**Net Interest Income**

Tax-equivalent net interest for the first nine months of 2007 was $176.90 million which was virtually flat from the prior year s first nine months. Average earning assets increased $148.39 million or 2.43% as average net loans increased $255.16 million or 5.45% due mainly to the Premier acquisition. In addition, the average yield on earning assets for the first nine months of 2007 increased 31 basis points from the first nine months of 2006 due to higher interest rates. However, as a result of the higher interest rates, the average cost of funds for the first nine months of 2007 increased 41 basis points from the first nine months of 2006. In addition, for the nine months ended September 30, 2007, interest income from United s asset securitization decreased $1.22 million or 34.07% from the same period in 2006. The net interest margin for the first nine months of 2007 was 3.78%, down 9 basis points from a net interest margin of 3.87% during the same period last year.

Tax-equivalent net interest income for the third quarter of 2007 was $63.32 million, an increase of $4.50 million or 7.65% from the third quarter of 2006. This increase in tax-equivalent net interest income was primarily attributable to a $672.12 million or 11.08% increase in average earning assets resulting primarily from the Premier acquisition. Average net loans increased $663.08 million or 14.03% while average investment securities declined $26.13 million or 2.01%. In addition, the average yield on earning assets for the third quarter of 2007 increased 20 basis points from the third quarter of 2006. Partially offsetting these increases to net interest income was a 26 basis point increase in the cost of funds from the third quarter of 2006. The net interest margin for the third quarter of 2007 was 3.75%, down 12 basis points from a net interest margin of 3.87% for the third quarter of 2006.

On a linked-quarter basis, United s tax-equivalent net interest income for the third quarter of 2007 increased $6.42 million or 11.27% from the second quarter of 2007. This increase in tax-equivalent net interest income was due primarily to a $736.72 million or 12.28% increase in average earning assets resulting mainly from the Premier acquisition. Average net loans increased $672.06 million or 14.25% and average investment securities increased $37.20 million or 3.00%. In addition, the average yield on earning assets increased 11 basis points for the quarter. Partially offsetting these increases to net interest income was an 8 basis point increase in the cost of funds from the second quarter of 2007. The net interest margin for the third quarter of 2007 of 3.75% was a decrease of 5 basis points from the net interest margin of 3.80% for the second quarter of 2007.

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Tables 1 and 2 below show the unaudited consolidated daily average balance of major categories of assets and liabilities for the three-month and nine-month periods ended September 30, 2007 and 2006, respectively, with the interest and rate earned or paid on such amount. The interest income and yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%. The interest income and yield on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income tax rate of 9%.

**Table 1**

| | **Three Months Ended September 30, 2007** | | | **Three Months Ended September 30, 2006** | | |
|---|---|---|---|---|---|---|
| *(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 | $ 73,025 | $ 876 | 4.76% | $ 37,862 | $ 515 | 5.41% |
| Investment Securities: | | | | | | |
| Taxable | 1,055,455 | 13,832 | 5.24% | 1,074,752 | 13,934 | 5.19% |
| Tax-exempt (1) (2) | 221,351 | 4,549 | 8.22% | 228,185 | 4,918 | 8.62% |
| Total Securities | 1,276,806 | 18,381 | 5.76% | 1,302,937 | 18,852 | 5.79% |
| Loans, net of unearned income (1) (2) (3) | 5,436,915 | 102,262 | 7.47% | 4,768,835 | 86,959 | 7.25% |
| Allowance for loan losses | (49,088) | | | (44,087) | | |
| Net loans | 5,387,827 | | 7.54% | 4,724,748 | | 7.31% |
| Total earning assets | 6,737,658 | $ 121,519 | 7.17% | 6,065,547 | $ 106,326 | 6.97% |
| Other assets | 759,307 | | | 560,501 | | |
| TOTAL ASSETS | $ 7,496,965 | | | $ 6,626,048 | | |
| **LIABILITIES** | | | | | | |
| Interest-Bearing Funds: | | | | | | |
| Interest-bearing deposits | $ 4,391,017 | $ 40,176 | 3.63% | $ 3,897,572 | $ 32,312 | 3.29% |
| Short-term borrowings | 712,609 | 8,220 | 4.58% | 680,201 | 7,142 | 4.17% |
| Long-term borrowings | 714,870 | 9,801 | 5.44% | 497,516 | 8,052 | 6.42% |
| Total Interest-Bearing Funds | 5,818,496 | 58,197 | 3.97% | 5,075,289 | 47,506 | 3.71% |
| Noninterest-bearing deposits | 876,034 | | | 852,850 | | |
| Accrued expenses and other liabilities | 66,534 | | | 61,216 | | |
| TOTAL LIABILITIES | 6,761,064 | | | 5,989,355 | | |
| **SHAREHOLDERS EQUITY** | 735,901 | | | 636,693 | | |

| | | | | |
|---|---|---|---|---|
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 7,496,965 | | $ 6,626,048 | |
| **NET INTEREST INCOME** | $ 63,322 | | $ 58,820 | |
| **INTEREST SPREAD** | | 3.20% | | 3.26% |
| **NET INTEREST MARGIN** | | 3.75% | | 3.87% |

(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) | Nine Months Ended September 30, 2007 Average Balance | Interest | Avg. Rate | Nine Months Ended September 30, 2006 Average Balance | Interest | Avg. Rate |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Earning Assets: | | | | | | |
| Federal funds sold and securities repurchased under agreements to resell and other short-term investments | $ 51,807 | $ 1,980 | 5.11% | $ 39,856 | $ 1,235 | 4.14% |
| Investment Securities: | | | | | | |
| Taxable | 1,041,117 | 40,446 | 5.18% | 1,147,628 | 43,371 | 5.04% |
| Tax-exempt (1) (2) | 221,716 | 13,631 | 8.20% | 233,930 | 15,062 | 8.59% |
| Total Securities | 1,262,833 | 54,077 | 5.71% | 1,381,558 | 58,433 | 5.64% |
| Loans, net of unearned income (1) (2) (3) | 4,982,200 | 275,883 | 7.40% | 4,725,633 | 250,216 | 7.08% |
| Allowance for loan losses | (45,560) | | | (44,153) | | |
| Net loans | 4,936,640 | | 7.47% | 4,681,480 | | 7.14% |
| Total earning assets | 6,251,280 | $ 331,940 | 7.10% | 6,102,894 | $ 309,884 | 6.79% |
| Other assets | 624,307 | | | 558,016 | | |
| TOTAL ASSETS | $ 6,875,587 | | | $ 6,660,910 | | |
| **LIABILITIES** | | | | | | |
| Interest-Bearing Funds: | | | | | | |
| Interest-bearing deposits | $ 4,040,301 | $ 107,574 | 3.56% | $ 3,792,935 | $ 84,807 | 2.99% |
| Short-term borrowings | 679,128 | 22,846 | 4.50% | 776,772 | 23,029 | 3.96% |
| Long-term borrowings | 582,512 | 24,619 | 5.65% | 512,314 | 25,111 | 6.55% |
| Total Interest-Bearing Funds | 5,301,941 | 155,039 | 3.91% | 5,082,021 | 132,947 | 3.50% |
| Non-interest bearing deposits | 831,739 | | | 875,556 | | |
| Accrued expenses and other liabilities | 67,190 | | | 61,668 | | |
| TOTAL LIABILITIES | 6,200,870 | | | 6,019,245 | | |
| **SHAREHOLDERS EQUITY** | 674,717 | | | 641,665 | | |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 6,875,587 | | | $ 6,660,910 | | |
| **NET INTEREST INCOME** | | $ 176,901 | | | $ 176,937 | |

| | | |
|---|---|---|
| **INTEREST SPREAD** | 3.19% | 3.29% |
| **NET INTEREST MARGIN** | 3.78% | 3.87% |

(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 September 30, 2007, nonperforming loans were $22.79 million or 0.41% of loans, net of unearned income compared to nonperforming loans of $14.19 million or 0.30% of loans, net of unearned income at December 31, 2006, respectively. The increase was due largely to nonperforming loans of $5.63 million added from the Premier merger. The components of nonperforming loans include nonaccrual loans and

loans, which are contractually past due 90 days or more as to interest or principal, but have not been put on a nonaccrual basis. At September 30, 2007, nonaccrual loans were $8.96 million, an increase of $3.20 million from $5.76 million at year-end 2006. Premier added $2.23 million in nonaccrual loans. Loans past due 90 days or more were $13.83 million at September 30, 2007, an increase of $5.40 million from $8.43 million at year-end 2006. Premier added $3.40 million in loans past due 90 days or more. Otherwise, the additional increase in nonaccrual loans and loans past due 90 days or more were due mainly to the addition of certain residential real estate construction credits originated by a former United loan officer with an outstanding balance of $3.67 million being either 90-plus days delinquent or on nonaccrual status as of September 30, 2007. Total nonperforming assets of $28.12 million, including OREO of $5.34 million at September 30, 2007, represented 0.37% of total assets at the end of the third quarter which compares favorably to United s most recently reported peer group banking companies (bank holding companies with total assets between $5 and $10 billion) percentage of 0.45%. For a summary of nonperforming assets, see Note 6 to the unaudited Notes to Consolidated Financial Statements.

At September 30, 2007, impaired loans were $29.85 million, which was an increase of $7.89 million from the $21.96 million in impaired loans at December 31, 2006. This increase in impaired loans was due primarily to the addition of two large collateralized commercial credits with a total balance of $7.32 million and to an increase of $2.92 million from the above mentioned certain residential real estate construction credits. Charge-offs of $1.30 million and $3.02 million were recognized on the real estate construction credits during the third quarter and first nine months of 2007, respectively, which were previously reported as impaired with specific allowances allocated in the company s allowance for credit losses. Based on current information and events, United believes it is probable that the borrowers will not be able to repay all amounts due according to the contractual terms of the loan agreements and therefore, specific allowances in the company s allowance for credit losses have been allocated for all of these loans. For further details regarding impaired loans, see Note 6 to the unaudited Consolidated Financial Statements.

United evaluates the adequacy of the allowance for credit losses and its loan administration policies are focused upon the risk characteristics of the loan portfolio. United s process for evaluating the allowance is a formal company-wide process that focuses on early identification of potential problem credits and procedural discipline in managing and accounting for those credits. This process determines the 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 September 30, 2007, the allowance for credit losses was $58.62 million as compared to $52.37 million at December 31, 2006. As a percentage of loans, net of unearned income, the allowance for credit losses was 1.05% at September 30, 2007 and 1.09% of loans, net of unearned income at December 31, 2006. The ratio of the allowance for credit losses to nonperforming loans was 257.3% and 369.2% at September 30, 2007 and December 31, 2006, respectively.

The provision for credit losses for the first nine months of 2007 and 2006 was $2.75 million and $1.17 million, respectively. For the quarters ended September 30, 2007 and 2006, the provision for credit losses was $1.55 million and $571 thousand, respectively. Net charge-offs for the first nine months of 2007 were $4.15 million as compared to $1.50 million for the first nine months of 2006. Net charge-offs were $1.80

million for the third quarter of 2007 as compared to net charge-offs of $930 thousand for the same quarter in 2006. Annualized net charge-offs as a percentage of average loans were 0.13% and 0.11% for the third quarter and first nine months of 2007, respectively. These ratios also compare favorably to United s most recently reported peer group banking companies net charge-offs to average loans percentage of 0.18% for the quarter and 0.21% year-to-date. The increase in net charge-offs from last year s third quarter and first nine months was due mainly to the charge-offs of $1.30 million and $3.02 million for the third quarter and first nine months of 2007 on the residential real estate construction credits mentioned above. 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 the level of 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. 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 September 30, 2007 produced increased allocations in three of the four loan categories. The components of the allowance allocated to commercial loans increased by $4.5 million due to the impact of the acquired loans from Premier, increased loan outstandings net of the acquisition and higher qualitative factors. Consumer loans increased $221 thousand also as a result of the Premier acquisition. The real estate construction loan pool allocations rose during the first nine months by $2.4 million primarily due to the Premier acquisition and a special allocation of $834 million related to the single family residential construction loan pool. The components of the allowance allocated to real estate loans decreased by $204 thousand due to reductions in high loan to value outstandings, as well as changes in loan volume and qualitative factors. The unfunded commitments liability decreased by $478 thousand to $8.3 million.

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

impaired loans was $4.1 million at September 30, 2007 and $3.0 million at December 31, 2006. Compared to the prior year-end, this element of the allowance increased by $1.1 million due to the combination of the Premier acquisition and higher specific allocations in the commercial and real estate construction and development loan pools.

An allowance is also recognized for imprecision inherent in loan loss migration models and other estimates of loss. There are many factors affecting the allowance for loan losses and allowance for lending-related commitments; some are quantitative while others require qualitative judgment. Although management believes its methodology for determining the allowance adequately considers all of the potential factors to identify and quantify probable losses in the portfolio, the process includes subjective elements and is therefore susceptible to change. This estimate for imprecision has been established to recognize the variance, within a reasonable margin, of the loss estimation process. The estimate for imprecision decreased at September 30, 2007 by $177 thousand to $1.5 million. This represents only 2.53% of the bank s total allowance for credit loss and in as much as this variance approximates a pre-determined narrow parameter, the methodology has confirmed that the Company s allowance for credit loss is at an appropriate level.

Management believes that the allowance for credit losses of $58.62 million at September 30, 2007 is adequate to provide for probable losses on existing loans and loan-related commitments based on information currently available. United s loan administration policies are focused on the risk characteristics of the loan portfolio in terms of loan approval and credit quality. The commercial loan portfolio is monitored for possible concentrations of credit in one or more industries. Management has lending limits as a percentage of capital per type of credit concentration in an effort to ensure adequate diversification within the portfolio. Most of United s commercial loans are secured by real estate located in West Virginia, Southeastern Ohio, Virginia and Maryland. It is the opinion of management that these commercial loans do not pose any unusual risks and that adequate consideration has been given to these loans in establishing the allowance for credit losses.

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

**Other Income**

Other income consists of all revenues, which are not included in interest and fee income related to earning assets. Noninterest income has been and will continue to be an important factor for improving United s profitability. Recognizing the importance, management continues to evaluate areas where noninterest income can be enhanced. Noninterest income was $48.77 million for the first nine months of 2007, up $14.47 million when compared to the first nine months of 2006. Included in total noninterest income for the first nine months of 2007 was a before-tax gain of $787 thousand on the termination of interest rate swaps associated with the prepayment of FHLB advances as compared to a before-tax loss of $4.60 million for the first nine months of 2006. In addition, United s income from investment security transactions increased $3.57 million for the first nine

months of 2007 as compared to the same period last year as United incurred a net loss on security transactions of $2.93 million in the first quarter of 2006 due to an other than temporary impairment on approximately $86 million of low-yielding fixed rate investment securities which United subsequently sold as part of its balance sheet repositioning. Excluding the results of the interest rate swap terminations and investment security transactions, noninterest income for the first nine months of 2007 would have increased $5.52 million or 13.14% from the first nine months of 2006.

For the third quarter of 2007, noninterest income was $17.33 million, an increase of $11.11 million from the third quarter of 2006. The increase was mainly due to a before-tax loss of approximately $7.66 million in the third quarter of 2006 on the termination of interest rate swaps associated with the prepayment of FHLB advances. Excluding the amounts associated with interest rate swap terminations and security transactions, noninterest income for the third quarter of 2007 would have increased $3.15 million or 22.47% from the third quarter of 2006.

The rise in noninterest income in the first nine months of 2007 from the same period in 2006 was due in large part to an increase of $2.56 million or 11.86% in fees from deposit services mainly as a result of United s High Performance Checking program and the Premier acquisition. For the third quarter of 2007, fees from deposit services increased $1.72 million or 23.35% as compared to the same period in 2006. In particular, insufficient funds (NSF) fees increased $2.12 million and $1.35 million during the first nine months and third quarter of 2007, respectively, and check card fees increased $821 thousand and $391 thousand, respectively. Deposit service charges and account analysis fees declined $266 thousand and $243 thousand, respectively, for the first nine months of 2007 as compared to the same period in 2006. For the third quarter of 2007, deposit service charges and account analysis fees declined $60 thousand and $94 thousand, respectively, compared to the third quarter of 2006.

Revenue from trust and brokerage services for the first nine months of 2007 grew $1.24 million or 12.58% from the first nine months of 2006. For the third quarter of 2007, revenue from trust and brokerage services grew $598 thousand or 18.75% from the prior year s third quarter. United continues its efforts to broaden the scope and activity of its trust and brokerage service areas, especially in the northern Virginia market, to provide additional sources of fee income that complement United s traditional banking products and services. The northern Virginia market provides a relatively large number of potential customers with high per capita incomes.

Income from bank-owned life insurance increased $680 thousand or 20.70% for the first nine months of 2007 as compared to last year s first nine months due to an increase in the cash surrender value, but was relatively flat for the third quarter of 2007 as compared to the third quarter of 2006.

Mortgage banking income decreased $168 thousand or 27.32% for the first nine months of 2007 from the same period in 2006 due to fewer sales. Mortgage loan sales were $32.19 million in the first nine months 2007 as compared to $40.90 million in the first nine months of 2006. Mortgage banking income for the third quarter of 2007 decreased $112 thousand or 47.46% when compared to the same period in 2006 due once again to fewer sales. Mortgage loan sales were $9.47 million in the third quarter of 2007 as compared to $18.60 million in the third quarter of 2006.

Fees from bankcard transactions increased $507 thousand or 12.64% and $310 thousand or 22.03% for the

first nine months and third quarter of 2007 as compared to the same time periods last year due to increased volume. Other income increased $637 thousand and $443 thousand for the first nine months and third quarter of 2007, respectively. Income from the outsourcing of official checks processing for the first nine months and third quarter of 2007 increased $477 thousand and $101 thousand, respectively, over the same periods last year.

On a linked-quarter basis, noninterest income increased $801 thousand from the second quarter of 2007. Included in the results from the second quarter of 2007 was the previously mentioned before-tax gain of $787 thousand on the termination of interest rate swaps associated with the prepayment of FHLB advances. Excluding the results of the interest rate swap terminations and investment security transactions, noninterest income for the third quarter of 2007 would have increased $1.58 million or 10.15% from the second quarter of 2007 as deposit service fees increased $1.22 million or 15.48% and bankcard transaction fees increased $272 thousand or 18.85%.

**Other Expenses**

Just as management continues to evaluate areas where noninterest income can be enhanced, it strives to improve the efficiency of its operations to reduce costs. Other expenses include all items of expense other than interest expense, the provision for loan losses, and income taxes.

For the first nine months of 2007, noninterest expenses decreased $1.55 million or 1.48% from the first nine months of 2006. Results for the first nine months of 2007 included expenses related to the Premier merger. Results for the first nine months of 2007 and 2006 both included penalties to prepay FHLB advances. Merger expenses and related integration costs of the Premier acquisition were $1.33 million for the first nine months of 2007. United incurred before-tax penalties of $786 thousand and $8.26 million to prepay FHLB advances during the first nine months of 2007 and 2006, respectively.

Noninterest expenses decreased $1.19 million or 2.96% for the third quarter of 2007 compared to the same period in 2006. Included in the results for the third quarter of 2007 were expenses related to the Premier merger while the results for the third quarter of 2006 included penalties to prepay FHLB advances. Merger expenses and related integration costs of the Premier acquisition were $1.01 million for the third quarter of 2007. United incurred before-tax penalties of approximately $8.26 million to prepay FHLB advances during the third quarter of 2006.

Salaries and benefits expense for the first nine months of 2007 was flat from the first nine months of 2006, increasing $41 thousand or less than 1%. Salaries increased $1.83 million or 5.06% due mainly to the additional employees from the Premier merger while benefits expense decreased $1.13 million or 12.21% due to a decrease of $1.99 million in pension expense. During the third quarter of 2006, United made a significant contribution to its pension plan as allowed by the Pension Protection Act of 2006. This large contribution has resulted in decreased pension expense for United in the year 2007 as compared to 2006. Salaries and benefits expense for the third quarter of 2007 increased $1.71 million or 10.88% from the third quarter of 2006. Salaries increased $1.52 million or 12.21% due mainly to the additional employees from the Premier merger. Pension expense for the third quarter of 2007 decreased $565 thousand from the same

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period in 2006.

Net occupancy expense for the first nine months and third quarter of 2007 increased $935 thousand or 9.89% and $792 thousand or 26.13% from the first nine months and third quarter of 2006, respectively. The increases were due mainly to additional building depreciation, building rental expense, and real property taxes from the branches added in the Premier merger.

Data processing expense increased $1.97 million or 44.56% and $971 thousand or 65.74% for the first nine months and third quarter of 2007, respectively, as compared to the first nine months and third quarter of 2006. The increases were primarily due to additional outsourcing of processing functions and a change in processing procedures in addition to the Premier merger. The outsourcing of functions was partially offset by a reduction in personnel expense while the change in processing procedures is expected to result in future cost savings as United meets the requirements of Check 21.

Other expenses increased $2.36 million or 8.56% and $2.91 million or 32.81% for the first nine months and third quarter of 2007 as compared to the first nine months and third quarter of 2006. Included in other expenses for 2007 are merger and related integration costs of $1.33 million and $1.01 million for the Premier acquisition. In addition, amortization of core deposit intangibles for the first nine months and third quarter of 2007 increased $337 thousand and $542 thousand, respectively, from the same time periods in 2006 due to the Premier merger. Other expenses of note that increased for the first nine months and third quarter of 2007 from last year s results were loan collection, armored carrier, postage, ATM and bankcard processing costs. Marketing and related costs of United s High Performance Checking program declined $759 thousand and $55 thousand in the first nine months and third quarter of 2007, respectively, as compared to the first nine months and third quarter of 2006.

On a linked-quarter basis, noninterest expense for the third quarter of 2007 increased $6.53 million from the second quarter of 2007 due mainly to the Premier merger. Accordingly, most major categories of noninterest expense showed increases. In particular, salaries and employee benefits expense increased $2.82 million, net occupancy expense increased $709 thousand, equipment expense increased $702 thousand, core deposit amortization increased $618 thousand and armored carrier expense increased $468 thousand all mainly the result of the Premier merger. Merger expenses and related integration costs of the Premier acquisition were $1.01 million for the third quarter of 2007 as compared to $263 thousand for the second quarter of 2007. Included in noninterest expense for the second quarter of 2007 was a before-tax penalty of $786 thousand to prepay approximately $28.9 million of a $100 million long-term convertible FHLB advance.

As previously discussed in Note 11 of the unaudited Notes to Consolidated Financial Statements contained within this document, United adopted SFAS 123R on January 1, 2006 using the modified prospective transition method. 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. Under this transition method, compensation cost to be recognized beginning in the first quarter of 2006 included: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods were not restated. Due to a

modification on December 30, 2005 to accelerate any unvested options under United s existing stock option plans and the fact that no new options have been granted during 2006 and the first nine months of 2007, United did not recognize any compensation cost for the third quarter and first nine months of 2007 and 2006.

The 2006 Stock Option Plan was approved by United s shareholders on May 15, 2006. As of September 30, 2007, no stock options have been granted under the 2006 Stock Option Plan. Any stock options granted under the 2006 Stock Option Plan in the future will be subject to the provisions of SFAS 123R. A Form S-8 was filed on October 25, 2006 with the Securities and Exchange Commission to register all the shares available for the 2006 Stock Option Plan.

**Income Taxes**

For the first nine months of 2007 and 2006, income taxes were $32.88 million and $29.86 million, respectively. For the third quarter of 2007, income taxes were $10.06 million as compared to $6.19 million for the third quarter of 2006. During the third quarter of 2007, United reduced its income tax reserve by $1.06 million due to the expiration of the statute of limitations for examinations of certain years. United s effective tax rates for the first nine months of 2007 and 2006 were 30.55% and 31.74%, respectively. For the quarters ended September 30, 2007 and 2006, United s effective tax rates were 28.06% and 30.42%, respectively.

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

United has various financial obligations, including contractual obligations and commitments, that may require future cash payments. Please refer to United s Annual Report on Form 10-K for the year ended December 31, 2006 for disclosures with respect to United s fixed and determinable contractual obligations. There have been no material changes outside the ordinary course of business since year-end 2006 in the specified contractual obligations disclosed in the Annual Report on Form 10-K.

On January 1, 2007, United adopted the provisions of FIN 48. As of September 30, 2007, United recorded a liability for uncertain tax positions, including interest and penalties, of $5.9 million in accordance with FIN 48. This liability represents an estimate of tax positions that United has taken in its tax returns which may ultimately not be sustained upon examination by tax authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability is excluded from the contractual obligations table.

United also enters into derivative contracts, mainly to protect against adverse interest rate movements on the value of certain assets or liabilities, under which it is required to either pay cash to or receive cash from counterparties depending on changes in interest rates. Derivative contracts are carried at fair value and not notional value on the consolidated balance sheet. Further discussion of derivative instruments is presented in Note 11 to the unaudited Notes to Consolidated Financial Statements.

United is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments and standby letters of credit. United s maximum exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for the loan commitments and standby letters of credit is the

contractual or notional amount of those instruments. United uses the same policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Further discussion of off-balance sheet commitments is included in Note 10 to the unaudited Notes to Consolidated Financial Statements.

**Liquidity**

In the opinion of management, United maintains liquidity that is sufficient to satisfy its depositors requirements and the credit needs of its customers. Like all banks, United depends upon its ability to renew maturing deposits and other liabilities on a daily basis and to acquire new funds in a variety of markets. A significant source of funds available to United is core deposits . Core deposits include certain demand deposits, statement and special savings and NOW accounts. These deposits are relatively stable, and they are the lowest cost source of funds available to United. To help attract these lower cost deposits, United introduced its High Performance Checking program during the first quarter of 2006. Short-term borrowings have also been a significant source of funds. These include federal funds purchased and securities sold under agreements to repurchase as well as advances from the FHLB. Repurchase agreements represent funds which are obtained as the result of a competitive bidding process.

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

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

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

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

For the nine months ended September 30, 2007, cash of $67.82 million was provided by operating activities. Net cash of $78.27 million was used in investing activities which was mainly due to net cash paid of $35.78 million for the acquisition of Premier and net cash used for loan growth of $32.14 million. During the first nine months of 2007, net cash of $44.11 million was used in financing activities due primarily to a decline in deposits of $198.83 million and the repayment of overnight FHLB borrowings and federal funds purchased

in the amount of $45 million and $38.67 million, respectively. Other uses of cash for financing activities included payment of $34.34 million and $24.89 million, respectively, for cash dividends and acquisitions of United shares under the stock repurchase program. Cash provided by financing activities included an increase in securities sold under agreements to repurchase of $114.35 million and net proceeds of $99.77 million and $82.48 million, respectively, from long-term FHLB borrowings and trust preferred issuances. The net effect of cash flow activities was a decrease in cash and cash equivalents of $54.55 million for the first nine months of 2007.

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. See Notes 8 and 9 to the accompanying unaudited Notes to Consolidated Financial Statements for more details regarding the amounts available to United under line of credit.

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

**Capital Resources**

United s capital position is financially sound. United seeks to maintain a proper relationship between capital and total assets to support growth and sustain earnings. United has historically generated attractive returns on shareholders equity. Based on regulatory requirements, United and its banking subsidiaries are categorized as well capitalized institutions. United s risk-based capital ratios of 11.26% at September 30, 2007 and 11.15% at December 31, 2006, were both significantly higher than the minimum regulatory requirements. United s Tier I capital and leverage ratios of 10.18% and 8.84%, respectively, at September 30, 2007, are also well above regulatory minimum requirements.

Total shareholders equity was $755.27 million, an increase of $121.18 million or 19.11% from December 31, 2006. United s equity to assets ratio was 9.83% at September 30, 2007 as compared to 9.44% at December 31, 2006. The primary capital ratio, capital and reserves to total assets and reserves, was 10.51% at September 30, 2007 as compared to 10.14% at December 31, 2006. United s average equity to average asset ratio was 9.82% and 9.61% for the quarters ended September 30, 2007 and 2006, respectively. For the first nine months of 2007 and 2006, the average equity to average assets ratio was 9.81% and 9.63%, respectively. All of these financial measurements reflect a financially sound position.

During the third quarter of 2007, United s Board of Directors declared a cash dividend of $0.28 per share. Cash dividends were $0.84 per common share for the first nine months of 2007. Total cash dividends declared were $12.09 million for the third quarter of 2007 and $34.91 million for the first nine months of 2007, an increase of 8.34% and 3.59% over comparable periods of 2006. The year 2007 is expected to be the thirty-fourth consecutive year of dividend increases to United shareholders.

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

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

### Interest Rate Risk

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

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

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

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

margin.
The following table shows United s estimated earnings sensitivity profile as of September 30, 2007 and December 31, 2006:

| Change in Interest Rates (basis points) | Percentage Change in Net Interest Income | |
|---|---|---|
| | September 30, 2007 | December 31, 2006 |
| +200 | 2.07% | 3.04% |
| +100 | 1.09% | 1.50% |
| -100 | -0.29% | -0.76% |
| -200 | -3.50% | -5.11% |

At September 30, 2007, given an immediate, sustained 100 basis point upward shock to the yield curve used in the simulation model, net interest income for United is estimated to increase by 1.09% over one year as compared to an increase of 1.50% at December 31, 2006. A 200 basis point immediate, sustained upward shock in the yield curve would increase net interest income by a estimated 2.07% over one year as of September 30, 2007, as compared to an increase of 3.04% as of December 31, 2006. A 100 basis point immediate, sustained downward shock in the yield curve would decrease net interest income by a estimated 0.29% over one year as of September 30, 2007, as compared to a decrease of 0.76% as of December 31, 2006. A 200 basis point immediate, sustained downward shock in the yield curve would decrease net interest income by an estimated 3.50% over one year as compared to a decrease of 5.11% over one year as of December 31, 2006.
This analysis does not include the potential increased refinancing activities, which should lessen the negative impact on net income from falling rates. While it is unlikely market rates would immediately move 100 or 200 basis points upward or downward on a sustained basis, this is another tool used by management and the Board of Directors to gauge interest rate risk. All of these estimated changes in net interest income are and were within the policy guidelines established by the Board of Directors.
To further aid in interest rate management, United s subsidiary banks are members of the Federal Home Loan Bank (FHLB). The use of FHLB advances provides United with a low risk means of matching maturities of earning assets and interest-bearing funds to achieve a desired interest rate spread over the life of the earning assets. In addition, United uses credit with large regional banks and trust preferred securities to provide funding.
As part of its interest rate risk management strategy, United may use derivative instruments to protect against adverse price or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives commonly consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. Interest rate swaps obligate two parties to exchange one or more payments generally calculated with reference to a fixed or variable rate of interest applied to the notional amount. United accounts for its derivative activities in accordance with the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.
During 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

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

At the date of securitization, key economic assumptions used in measuring the fair value of the subordinated interest were as follows: a weighted average life of 5.3 years, expected cumulative default rate of 15%, and residual cash flows discount rates of 8% to 18%. At June 30, 2007 and December 31, 2006, the fair values of the subordinated interest and the cost of the available for sale securities was zero.

At September 30, 2007, the principal balances of the residential mortgage loans held in the securitization trust were approximately $7.89 million. Principal amounts owed to third party investors and to United in the securitization were approximately $3.00 million and $4.89 million, respectively, at September 30, 2007. The weighted average term to maturity of the underlying mortgages approximated 12.5 years as of September 30, 2007. During the three and nine months ended September 30, 2007, United received cash of $780 thousand and $2.37 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:

| | **September 30, 2007** | **December 31, 2006** |
|---|---|---|
| Total principal amount of loans | $ 7,890 | $ 10,382 |
| Principal amount of loans 60 days or more past due | 135 | 114 |
| Year-to-date average balances | 9,192 | 13,000 |
| Year-to-date net credit (recoveries) losses | (73) | 369 |

**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 September 30, 2007, United s mortgage related securities portfolio had an amortized cost of $796 million, of which approximately $712 million or 89% were fixed rate collateralized mortgage obligations (CMOs). These fixed rate CMOs consisted primarily of planned amortization class (PACs) and accretion directed (VADMs) bonds having an average life of approximately 2.3 years and a weighted average yield of 4.69%, under current projected prepayment assumptions. These securities are expected to have very little extension risk in a rising rate environment. Current models show that given an immediate, sustained upward shock of 300 basis points, the average life of these securities would extend to 2.5 years. The projected price decline of the fixed rate CMO portfolio in rates up 300 basis points would be 6.41%, less than the price decline of a 3 year Treasury note. By comparison, the price decline of a 30-year current coupon mortgage backed security (MBS) in rates higher by 300 basis points would be approximately 17%. United had approximately $15 million in 30-year mortgage backed securities with a projected yield of 6.63% and a projected average life of 4.5 years on September 30, 2007. These bonds are projected to be good risk/reward securities in stable rates, rates down moderately and rates up moderately 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 remaining 9% of the mortgage related securities portfolio at September 30, 2007, included adjustable rate securities (ARMs), balloon securities, and 10-year and 15-year mortgage backed pass-through securities.

**Item 4. CONTROLS AND PROCEDURES**

As of September 30, 2007, an evaluation was performed under the supervision of and with the participation of United s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of United s disclosure controls and procedures. Based on that evaluation, United s management, including the CEO and CFO, concluded that United s disclosure controls and procedures as of September 30, 2007 were effective in ensuring that information required to be disclosed in the Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time period required by the Securities and Exchange Commission s rules and forms. There have been no changes in United s internal control over financial reporting that occurred during the quarter ended September 30, 2007, 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 1A. RISK FACTORS**

In addition to the other information set forth in this report, please refer to United s Annual Report on Form 10-K for the year ended December 31, 2006 for disclosures with respect to United s risk factors which could materially affect United s business, financial condition or future results. The risks described in the Annual Report on Form 10-K are not the only risks facing United. Additional risks and uncertainties not currently known to United or that United currently deems to be immaterial also may materially adversely affect United s business, financial condition and/or operating results. There are no material changes from the risk factors disclosed in United s Annual Report on Form 10-K for the year ended, December 31, 2006.

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

There have been no United equity securities sales during the first nine months of 2007 that were not registered. The table below includes certain information regarding United s purchase of its common shares during the quarter ended September 30, 2007:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans (2) | Maximum Number of Shares that May Yet be Purchased Under the Plans (2) |
|---|---|---|---|---|
| 7/01 7/31/2007 | 105,024 | $31.48 | 105,000 | 322,200 |
| 8/01 8/31/2007 | 13 | $32.22 | | 322,200 |
| 9/01 9/30/2007 | 28 | $29.42 | | 322,200 |
| Total | 105,065 | $31.48 | 105,000 | |

(1) Includes shares purchased in open market transactions by United for a rabbi trust to provide payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries. For

the three months ended September 30, 2007, the following shares were purchased for the deferred compensation plan: July 2007 24 shares at an average price of $34.92; August 2007 13 shares at an average price of $32.22; and September 2007 28 shares at an average price of $29.42.

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(2) In May of 2006, United s Board of Directors approved a repurchase plan to repurchase up to 1.7 million shares of United s common stock on the open market (the 2006 Plan). The timing, price and quantity of purchases under the plan are at the discretion of management and the plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**Item 5. OTHER INFORMATION**

(a) None.

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

**Item 6. EXHIBITS**

Exhibits required by Item 601 of Regulation S-K

Exhibit 3.1 Articles of Incorporation (incorporated by reference to Exhibits to the 1989 Form 10-K of United Bankshares, Inc., File No. 0-13322)

Exhibit 3.2 Bylaws (incorporated by reference to Exhibits to the 1990 Form 10-K of United Bankshares, Inc., File No. 0-13322)

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: November 7, 2007

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

Date: November 7, 2007

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