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

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

FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For Quarter Ended September 30, 2005

Or

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

Commission File Number: 0-13322

United Bankshares, Inc.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.)
Yes þ No 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; **42,148,460** shares outstanding as of **October 31, 2005**.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

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

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CONSOLIDATED BALANCE SHEETS
UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except par value)	September 30 2005 (Unaudited)	December 31 2004 (Note 1)
Assets		
Cash and due from banks	$ 179,055	$ 132,306
Interest-bearing deposits with other banks	13,745	21,159
Federal funds sold	26,748	
Total cash and cash equivalents	219,548	153,465
Securities available for sale at estimated fair value (amortized cost $1,221,272 at September 30, 2005 and $1,266,931 at December 31, 2004)	1,219,069	1,277,160
Securities held to maturity (estimated fair value $238,376 at September 30, 2005 and $241,592 at December 31, 2004)	230,709	233,282
Loans held for sale	4,826	3,981
Loans	4,607,115	4,424,702
Less: Unearned income	(6,709)	(6,426)
Loans net of unearned income	4,600,406	4,418,276
Less: Allowance for loan losses	(43,617)	(43,365)
Net loans	4,556,789	4,374,911
Bank premises and equipment	39,982	41,564
Goodwill	167,487	166,926
Accrued interest receivable	29,123	27,371
Other assets	165,511	157,311
TOTAL ASSETS	$ 6,633,044	$ 6,435,971
Liabilities		
Deposits:		
Noninterest-bearing	$ 983,435	$ 885,339
Interest-bearing	3,626,297	3,412,224
Total deposits	4,609,732	4,297,563
Borrowings:		
Federal funds purchased	67,685	131,106
Securities sold under agreements to repurchase	616,146	546,425
Federal Home Loan Bank borrowings	540,988	669,322
Other short-term borrowings	2,563	4,427
Other long-term borrowings	89,043	89,433
Allowance for lending-related commitments	8,378	7,988
Accrued expenses and other liabilities	59,966	58,200
TOTAL LIABILITIES	5,994,501	5,804,464
Shareholders Equity		

Common stock, $2.50 par value; Authorized 100,000,000 shares; issued 44,320,832 at September 30, 2005 and December 31, 2004, including 2,074,281 and 1,312,387 shares in treasury at September 30, 2005 and December 31, 2004, respectively	110,802	110,802
Surplus	98,584	99,773
Retained earnings	500,897	459,393
Accumulated other comprehensive (loss) income	(2,996)	3,739
Treasury stock, at cost	(68,744)	(42,200)
TOTAL SHAREHOLDERS EQUITY	638,543	631,507
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 6,633,044	$ 6,435,971

See notes to consolidated unaudited financial statements.

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

(Dollars in thousands, except per share data)	Three Months Ended September 30 2005	2004	Nine Months Ended September 30 2005	2004
Interest income				
Interest and fees on loans	$ 70,575	$ 57,727	$ 199,665	$ 168,513
Interest on federal funds sold and other short-term investments	232	168	578	352
Interest and dividends on securities:				
Taxable	14,480	13,804	42,139	40,789
Tax-exempt	4,203	2,094	8,563	6,250
Total interest income	89,490	73,793	250,945	215,904
Interest expense				
Interest on deposits	19,626	12,312	50,946	34,503
Interest on short-term borrowings	4,656	1,534	12,083	4,775
Interest on long-term borrowings	8,550	7,778	24,810	25,461
Total interest expense	32,832	21,624	87,839	64,739
Net interest income	56,658	52,169	163,106	151,165
Provision for credit losses	1,945	1,296	3,560	3,192
Net interest income after provision for credit losses	54,713	50,873	159,546	147,973
Other income				
Fees from trust and brokerage services	2,813	2,837	8,312	8,070
Service charges, commissions, and fees	8,785	8,867	25,124	26,406
Income from bank-owned life insurance	1,020	959	3,443	2,976
Income from mortgage banking operations	337	148	690	558
Security (losses) gains	(93)	275	889	1,095
Other income	174	778	856	2,023
Total other income	13,036	13,864	39,314	41,128
Other expense				
Salaries and employee benefits	15,205	15,328	44,192	43,614
Net occupancy expense	3,113	3,026	9,259	9,272
Equipment expense	1,639	1,864	4,952	5,714
Data processing expense	1,405	1,095	4,273	3,307
Prepayment penalties on FHLB Advances		16,006		16,006
Other expense	9,154	8,933	27,158	27,436
Total other expense	30,516	46,252	89,834	105,349

Income from continuing operations before income taxes	37,233	18,485	109,026	83,752
Income taxes	11,784	5,734	34,303	25,937
Income from continuing operations	25,449	12,751	74,723	57,815
Gain on sale of discontinued Operations		17,000		17,000
Other operating income		92		3,780
Income from discontinued operations before income taxes		17,092		20,780
Income taxes		5,299		6,333
Income from discontinued operations		11,793		14,447
Net income	$ 25,449	$ 24,544	$ 74,723	$ 72,262

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands, except per share data)	**2005**	**2004**	**2005**	**2004**
Earnings per common share from continuing operations:				
Basic	$ 0.60	$ 0.29	$ 1.75	$ 1.33
Diluted	$ 0.59	$ 0.29	$ 1.73	$ 1.31
Earnings per common share from discontinued operations:				
Basic		$ 0.27		$ 0.33
Diluted		$ 0.27		$ 0.33
Earnings per common share:				
Basic	$ 0.60	$ 0.56	$ 1.75	$ 1.66
Diluted	$ 0.59	$ 0.56	$ 1.73	$ 1.64
Dividends per common share	$ 0.26	$ 0.26	$ 0.78	$ 0.76
Average outstanding shares:				
Basic	42,383,810	43,319,414	42,648,080	43,503,066
Diluted	42,918,552	43,858,149	43,153,673	44,043,491

See notes to consolidated unaudited financial statements.

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

	Nine Months Ended September 30, 2005						
	Common Stock				Accumulated Other		Total
		Par		Retained	Comprehensive Income	Treasury	Shareholders
	Shares	Value	Surplus	Earnings	(Loss)	Stock	Equity
Balance at January 1, 2005	44,320,832	$ 110,802	$ 99,773	$ 459,393	$ 3,739	($42,200)	$ 631,507
Comprehensive income:							
Net income				74,723			74,723
Other comprehensive income, net of tax:							
Unrealized loss on securities of $7,503 net of reclassification adjustment for gains included in net income of $578					(8,081)		(8,081)
Unrealized gain on cash flow hedge, net of tax of $526					976		976
Accretion of the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio					370		370
Total comprehensive income							67,988
Purchase of treasury stock (863,574 shares)						(29,868)	(29,868)
Cash dividends ($0.78 per share)				(33,219)			(33,219)
Common stock options exercised			(1,189)			3,324	2,135

(101,680 shares)

Balance at September 30, 2005	44,320,832	$ 110,802	$ 98,584	$ 500,897	($2,996)	($68,744)	$	638,543

See notes to consolidated unaudited financial statements

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

	Nine Months Ended September 30	
	2005	**2004**
NET CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS	$ 81,090	$ 60,280
INVESTING ACTIVITIES		
Proceeds from maturities and calls of securities held to maturity	3,449	15,051
Purchases of securities held to maturity	(453)	(3,952)
Proceeds from sales of securities available for sale	225,268	233,244
Proceeds from maturities and calls of securities available for sale	165,201	259,100
Purchases of securities available for sale	(348,279)	(501,878)
Net purchases of bank-owned life insurance		(11,809)
Net purchases of bank premises and equipment	(1,979)	(2,301)
Net change in loans	(186,795)	(314,004)
NET CASH USED IN INVESTING ACTIVITIES OF CONTINUING OPERATIONS	(143,588)	(326,549)
FINANCING ACTIVITIES		
Cash dividends paid	(33,409)	(32,712)
Acquisition of treasury stock	(29,868)	(29,621)
Proceeds from exercise of stock options	1,985	4,766
Repayment of long-term Federal Home Loan Bank borrowings	(126,732)	(246,297)
Proceeds from long-term Federal Home Loan Bank borrowings	150,000	140,000
Changes in:		
Deposits	312,169	169,148
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	(145,564)	127,394
NET CASH PROVIDED BY FINANCING ACTIVITIES OF CONTINUING OPERATIONS	128,581	132,678
NET CASH PROVIDED BY DISCONTINUED OPERATIONS		42,210
Increase (Decrease) in cash and cash equivalents	66,083	(91,381)
Cash and cash equivalents at beginning of year, continuing operations	153,465	249,118
Cash and cash equivalents at beginning of year, discontinued operations		5,823
Cash and cash equivalents at beginning of year	153,465	254,941

Cash and cash equivalents at end of period, continuing operations	$ 219,548	$ 163,560
Cash and cash equivalents at end of period, discontinued operations		
Cash and cash equivalents at end of period	$ 219,548	$ 163,560

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, 2005 and 2004 and for the three-month and nine-month periods then ended have not been audited. The consolidated balance sheet as of December 31, 2004 has been extracted from the audited financial statements included in United s 2004 Annual Report to Shareholders. The accounting and reporting policies followed in the presentation of these financial statements are consistent with those applied in the preparation of the 2004 Annual Report of United on Form 10-K. In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim periods have been made. Such adjustments are of a normal and recurring nature.

The accompanying consolidated interim financial statements include the accounts of United and its wholly owned subsidiaries. United considers all of its principal business activities to be bank related. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Dollars are in thousands, except per share and share data.

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net Income, as reported	$ 25,449	$ 24,544	$ 74,723	$ 72,262
Less pro forma expense related to options granted, net of tax	(299)	(251)	(900)	(755)
Pro forma net income	$ 25,150	$ 24,293	$ 73,823	$ 71,507
Pro forma net income per share:				
Basic as reported	$ 0.60	$ 0.56	$ 1.75	$ 1.66
Basic pro forma	$ 0.59	$ 0.56	$ 1.73	$ 1.64
Diluted as reported	$ 0.59	$ 0.56	$ 1.73	$ 1.64
Diluted pro forma	$ 0.59	$ 0.55	$ 1.71	$ 1.62

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current standards. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the company cannot estimate what those amounts will be in the future (because they depend on, among other things, the date employees exercise stock options), United did not recognize any such amounts in operating cash flows for the nine months ended September 30, 2005 and 2004.

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

2. DISCONTINUED OPERATIONS

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

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

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Statement of Income for Discontinued Operations

	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Interest and fees on loans		$ 6,850
Interest expense		1,543
Net interest income		5,307
Other income:		
Service charges, commissions, and fees		565
Gain on sale of discontinued operations	$ 17,000	17,000
Income from mortgage banking operations	92	15,271
Total other income	17,092	32,836
Other expense:		
Salaries and employee benefits expense		13,574
Net occupancy expense		985
Other noninterest expense		2,804
Total other expense		17,363
Income from discontinued operations before income taxes	17,092	20,780
Income taxes	5,299	6,333
Income from discontinued operations	$ 11,793	$ 14,447

3. INVESTMENT SECURITIES

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

	September 30, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 11,722	$ 2	$ 61	$ 11,663
State and political subdivisions	86,685	2,928	138	89,475
Mortgage-backed securities	934,928	3,744	11,760	926,912
Marketable equity securities	7,037	199	111	7,125

Other	180,900	3,209	215	183,894
Total	$1,221,272	$ 10,082	$ 12,285	$1,219,069

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

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

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

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

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

	Less than 12 months		12 months or longer	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses
September 30, 2005				
Treasuries and agencies	$ 7,319	$ 36	$ 979	$ 25
State and political	12,790	100	2,509	38
Mortgage-backed	463,114	4,774	379,550	6,986
Marketable equity securities	1,479	18	868	93
Other	2,474	26	18,274	189
Total	$ 487,176	$ 4,954	$ 402,180	$ 7,331
December 31, 2004				
Treasuries and agencies	$ 10,465	$ 20		
State and political	5,442	72	$ 1,247	$ 19
Mortgage-backed	479,144	4,339	147,170	1,912
Marketable equity securities	177	23	748	16
Other	20,619	126	4,929	34
Total	$ 515,847	$ 4,580	$ 154,094	$ 1,981

Gross unrealized losses on available for sale securities were $12,285 at September 30, 2005. 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, 2005 is other than temporarily impaired. United believes the decline in value is attributable to changes in market interest rates and not the credit quality of the issuers. United has the ability to hold these securities until such time as the value recovers or the securities mature.

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

	September 30, 2005		December 31, 2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 8,175	$ 10,275	$ 12,420	$ 12,418
Due after one year through five years	75,923	75,136	17,241	21,747
Due after five years through ten years	268,816	266,391	299,627	299,395
Due after ten years	861,321	860,142	929,046	933,542
Marketable equity securities	7,037	7,125	8,597	10,058
Total	$ 1,221,272	$ 1,219,069	$ 1,266,931	$ 1,277,160

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

	September 30, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 11,812	$1,364		$ 13,176
State and political subdivisions	68,738	2,538		71,276
Mortgage-backed securities	435	19		454
Other	149,724	4,455	$ 709	153,470
Total	$230,709	$8,376	$ 709	$238,376

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

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

	September 30, 2005		December 31, 2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 12,386	$ 12,502	$ 1,254	$ 1,261
Due after one year through five years	39,594	41,792	47,354	50,840
Due after five years through ten years	21,052	21,865	23,841	24,803
Due after ten years	157,677	162,217	160,833	164,688
Total	$230,709	$238,376	$233,282	$241,592

The carrying value of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law, approximated $1,098,248 and $1,034,573 at September 30, 2005 and December 31, 2004, respectively.

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4. LOANS

Major classifications of loans are as follows:

	September 30, 2005	December 31, 2004
Commercial, financial and agricultural	$ 891,546	$ 864,511
Real estate:		
Single-family residential	1,720,880	1,663,198
Commercial	1,129,960	1,063,554
Construction	358,540	303,516
Other	113,216	123,165
Installment	392,973	406,758
Total gross loans	$ 4,607,115	$ 4,424,702

The table above does not include loans held for sale of $4,826 and $3,981 at September 30, 2005 and December 31, 2004, respectively. Loans held for sale consist of single-family residential real estate loans originated for sale in the secondary market.

United s subsidiary banks have made loans, in the normal course of business, to the directors and officers of United and its subsidiaries, and to their affiliates. Such related party loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and did not involve more than normal risk of collectibility. The aggregate dollar amount of these loans was $112,482 and $109,126 at September 30, 2005 and December 31, 2004, respectively.

5. ALLOWANCE FOR CREDIT LOSSES

United maintains an allowance for loan losses and an allowance for lending-related commitments such as unfunded loan commitments and letters of credit. The allowance for lending-related commitments of $8,378 and $7,988 at September 30, 2005 and December 31, 2004, respectively, is separately identified on the balance sheet and is included in other liabilities. The combined allowances for loan losses and lending-related commitments are referred to as the allowance for credit losses.

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

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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	
	2005	2004	2005	2004
Balance at beginning of period	$ 51,633	$ 51,379	$ 51,353	$ 51,309
Provision	1,945	1,296	3,560	3,192
	53,578	52,675	54,913	54,501
Loans charged-off	(1,946)	(1,840)	(4,523)	(4,678)
Less: Recoveries	363	640	1,605	1,652
Net Charge-offs	(1,583)	(1,200)	(2,918)	(3,026)
Balance at end of period	$ 51,995	$ 51,475	$ 51,995	$ 51,475

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, 2005	December 31, 2004
Nonaccrual loans	$ 7,868	$ 6,352
Loans past due 90 days or more and still accruing interest	6,831	4,425
Total nonperforming loans	14,699	10,777
Other real estate owned	2,037	3,692
Total nonperforming assets	$ 16,736	$ 14,469

Loans are designated as impaired when, in the opinion of management, the collection of principal and interest in accordance with the contractual terms of the loan agreement is not probable. At September 30,

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2005, the recorded investment in loans that were considered to be impaired was $18,513 (of which $7,868 were on a nonaccrual basis). Included in this amount is $6,418 of impaired loans for which the related allowance for credit losses is $1,147 and $12,095 of impaired loans that do not have an allowance for credit losses due to management s estimate that the fair value of the underlying collateral of these loans is sufficient for full repayment of the loan and interest. At December 31, 2004, the recorded investment in loans that were considered to be impaired was $10,348 (of which $6,352 were on a nonaccrual basis). Included in this amount was $3,914 of impaired loans for which the related allowance for credit losses was $997, and $6,434 of impaired loans that did not have an allowance for credit losses. The average recorded investment in impaired loans during the nine months ended September 30, 2005 and for the year ended December 31, 2004 was approximately $14,946 and $15,709, respectively.

United recognized interest income on impaired loans of approximately $151 and $346 for the quarter and nine months ended September 30, 2005, respectively, and $46 and $300 for the quarter and nine months ended September 30, 2004, respectively. Substantially all of the interest income was recognized using the accrual method of income recognition. The amount of interest income that would have been recorded under the original terms for the above loans and nonaccrual loans was $282 and $711 for the quarter and nine months ended September 30, 2005, respectively, and $152 and $617 for the quarter and nine months ended September 30, 2004, respectively.

7. INTANGIBLE ASSETS

Total goodwill was $167,487 and $166,926 as of September 30, 2005 and December 31, 2004, respectively.

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

	As of September 30, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit intangible assets	$ 19,890	($14,828)	$ 5,062
Goodwill not subject to amortization			$ 167,487

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

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United incurred amortization expense of $560 and $1,757 for the quarter and nine months ended September 30, 2005, respectively, and $658 and $2,092 for the quarter and nine months ended September 30, 2004, respectively, related to intangible assets. The following table sets forth the anticipated amortization expense for intangible assets for each of the next five years:

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

8. SHORT TERM BORROWINGS

Federal funds purchased and securities sold under agreements to repurchase are a significant source of funds for the company. United has various unused lines of credit available from certain of its correspondent banks in the aggregate amount of $200,000. These lines of credit, which bear interest at prevailing market rates, permit United to borrow funds in the overnight market, and are renewable annually subject to certain conditions. At September 30, 2005, federal funds purchased were $67,685 while securities sold under agreements to repurchase were $616,146.

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, 2005, United had no outstanding balance under these lines of credit.

United Bank (VA) participates in the Treasury Investment Program, which is essentially the U.S. Treasury s savings account for companies depositing employment and other tax payments. The bank retains the funds in an open-ended interest-bearing note until the Treasury withdraws or calls the funds. A maximum note balance is established and that amount must be collateralized at all times. All tax deposits or a portion of the tax deposits up to the maximum balance are generally available as a source of short-term investment funding. As of September 30, 2005, United Bank (VA) had an outstanding balance of $2,563 and had additional funding available of $2,437.

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, 2005, United had an unused borrowing amount of approximately $1,356,131 available subject to delivery of collateral after certain trigger points.

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At September 30, 2005, $540,988 of FHLB advances with a weighted-average interest rate of 5.55% is scheduled to mature within the next twelve years. The scheduled maturities of borrowings are as follows:

Year	Amount
2005	$ 75,800
2006	1,100
2007	
2008	100,491
2009 and thereafter	363,597
Total	$ 540,988

United has a total of seven statutory business trusts that were formed for the purpose of issuing or participating in pools of trust preferred capital securities (Capital Securities) with the proceeds invested in junior subordinated debt securities (Debentures) of United. The Debentures, which are subordinate and junior in right of payment to all present and future senior indebtedness and certain other financial obligations of United, are the sole assets of the trusts and United s payment under the Debentures is the sole source of revenue for the trusts. At September 30, 2005 and December 31, 2004, the outstanding balances of the Debentures were $89,043 and $89,433 respectively, and were included in the category of long-term debt on the Consolidated Balance Sheets entitled Other long-term borrowings . The Capital Securities are not included as a component of shareholders equity in the Consolidated Balance Sheets. United fully and unconditionally guarantees each individual trust s obligations under the Capital Securities.

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

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

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

10. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. United had approximately $1,788,113 and $1,618,823 of loan commitments outstanding as of September 30, 2005 and December 31, 2004, respectively, the majority of which expire within one year.

Commercial and standby letters of credit are agreements used by United s customers as a means of improving their credit standing in their dealings with others. Under these agreements, United guarantees certain financial commitments of its customers. A commercial letter of credit is issued specifically to facilitate trade or commerce. Typically, under the terms of a commercial letter of credit, a commitment is drawn upon when the underlying transaction is consummated as intended between the customer and a third party. United has issued commercial letters of credit of $1,376 and $1,449 as of September 30, 2005 and December 31, 2004, respectively. A standby letter of credit is generally contingent upon the failure of a customer to perform according to the terms of an underlying contract with a third party. United has issued standby letters of credit of $136,579 and $140,168 as of September 30, 2005 and December 31, 2004, respectively. In accordance with FIN 45, United has determined that substantially all of its letters of credit are renewed on an annual basis and that the fair value of these letters of credit is immaterial.

11. DERIVATIVE FINANCIAL INSTRUMENTS

United uses derivative instruments to help aid against adverse prices or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives 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.

Under the provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , United has both fair value hedges and cash flow hedges as of September 30, 2005. 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 under SFAS No.133. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

The method of accounting for a perfect hedge as prescribed by SFAS No. 133 is applied because the critical terms of the hedged financial instruments (FHLB advances and fixed commercial loans) and the interest rate payments to be received on the swaps coincide and thus are effective in offsetting changes in the fair value of the hedged financial instruments over their remaining term. 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 stockholders equity, net of tax. Subsequent adjustments due to changes in the fair value of a derivative that qualifies as a cash flow hedge are offset to other comprehensive income, net of tax.

The 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, 2005:

Derivative Classifications and Hedging Relationships
September, 30, 2005

	Notional	Derivative	
	Amount	**Asset**	**Liability**
Derivatives Designated as Fair Value Hedges:			
Hedging Commercial Loans	$ 4,500		$ 15
Hedging FHLB Borrowings	100,000		6,674
Total Derivatives Designated as Fair Value Hedges:	$ 104,500		$ 6,689
Derivatives Designated as Cash Flow Hedges:			
Hedging FHLB Borrowings	$ 50,000	$ 1,502	
Total Derivatives Designated as Cash Flow Hedges:	$ 50,000	$ 1,502	
Total Derivatives Used in Interest Rate Risk Management and Designated in SFAS 133 Relationships:	$ 154,500	$ 1,502	$ 6,689

Derivative Instruments
September 30, 2005

	Notional Amount	Average Receive Rate	Average Pay Rate	Estimated Fair Value
Fair Value Hedges:				
Receive Fixed Swap (FHLB Borrowing)	$ 100,000	6.43%		$ (6,674)
Pay Fixed Swap (Commercial Loans)	4,500		6.70%	(15)
Total Derivatives Used in Fair Value Hedges	$ 104,500			$ (6,689)
Cash Flow Hedges:				
Pay Fixed Swap (FHLB Borrowing)	$ 50,000		4.29%	$ 1,502

Total Derivatives Used in Cash Flow Hedges	$ 50,000	$ 1,502
Total Derivatives Used for Interest Rate Risk Management and Designated in SFAS 133 Relationships	$ 154,500	$ (5,187)

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12. EMPLOYEE BENEFIT PLANS

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

Net periodic pension cost included the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2005**	**2004**	**2005**	**2004**
Service cost	$ 476	$ 587	$ 1,408	$ 1,749
Interest cost	765	713	2,269	2,124
Expected return on plan assets	(1,126)	(944)	(3,342)	(2,810)
Amortization of transition asset	(44)	(44)	(131)	(131)
Recognized net actuarial loss	172	231	510	687
Amortization of prior service cost	1	1	1	1
Net periodic pension cost	$ 244	$ 544	$ 715	$ 1,620
Weighted-Average Assumptions:				
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected return on assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	3.25%	3.25%	3.25%	3.25%

13. COMPREHENSIVE INCOME

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	**2004**	**2005**	**2004**
Net Income	$ 25,449	$ 24,544	$ 74,723	$ 72,262
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized gain (loss) on available for sale securities arising during the period	(3,173)	13,487	(7,503)	977
Less: Reclassification adjustment for gains included in net income	60	(179)	(578)	(712)
Unrealized gain on cash flow hedge	976		976	
Accretion on the unrealized loss for securities transferred from the available for sale to the held to maturity investment portfolio	123	124	370	384
Total Comprehensive Income	$ 23,435	$ 37,976	$ 67,988	$ 72,911

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14. EARNINGS PER SHARE

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands, except per share)	**2005**	**2004**	**2005**	**2004**
Income from Continuing Operations	$ 25,449	$ 12,751	$ 74,723	$ 57,815
Income from Discontinued Operations		11,793		14,447
Net Income	$ 25,449	$ 24,544	$ 74,723	$ 72,262
Basic				
Income from Continuing Operations	$ 0.60	$ 0.29	$ 1.75	$ 1.33
Income from Discontinued Operations		0.27		0.33
Net Income	$ 0.60	$ 0.56	$ 1.75	$ 1.66
Average common shares outstanding	42,383,810	43,319,414	42,648,080	43,503,066
Diluted				
Income from Continuing Operations	$ 0.59	$ 0.29	$ 1.73	$ 1.31
Income from Discontinued Operations		0.27		0.33
Net Income	$ 0.59	$ 0.56	$ 1.73	$ 1.64
Average common shares outstanding	42,383,810	43,319,414	42,648,080	43,503,066
Equivalents from stock options	534,742	538,735	505,593	540,425
Average diluted shares outstanding	42,918,552	43,858,149	43,153,673	44,043,491

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

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

United desires to provide its shareholders with sound information about past performance and future trends. Consequently, any forward-looking statements contained in this report, in a report incorporated by reference to this report, or made by management of United in this report, in any other reports and filings, in press releases and in oral statements, involves numerous assumptions, risks and uncertainties.

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

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies of United conform with accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements. Actual results could differ from these estimates. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for credit losses and the valuation of retained interests in securitized assets to be the accounting areas that require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for credit losses represents management s estimate of the probable credit losses inherent in the lending portfolio. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because management s evaluation of the adequacy of the allowance for credit losses is inherently subjective and requires significant estimates, including the amounts and timing of estimated future cash flows, estimated losses on pools of loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change. In determining the components of the allowance for credit losses, management considers the risk arising in part from, but not limited to, charge-off and delinquency trends, current economic and business conditions, lending policies and procedures, the size and risk characteristics of the loan portfolio, concentrations of credit, and other various factors. The methodology used to determine the allowance for credit losses is described in Note 5 to the unaudited consolidated financial statements. A discussion of the factors leading to changes in the amount of the allowance for credit losses is included in the Provision for Credit Losses section of this Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

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

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

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

FINANCIAL CONDITION

United s total assets as of September 30, 2005 were $6.63 billion, up $197.07 million or 3.06% from year-end 2004 primarily the result of a $182.13 million or 4.12% increase in portfolio loans. Cash and cash equivalents increased $66.08 million or 43.06%. Partially offsetting these increases was a decrease in investment securities of $60.66 million or 4.02%. The increase in total assets is reflected in a corresponding increase in total liabilities and shareholders equity of $190.04 million and $7.04 million, respectively, from year-end 2004. The increase in total liabilities was due mainly to growth in deposits of $312.17 million or 7.26% as United used lower-costing deposits to support asset growth. Partially offsetting this increase in deposits were reductions of $63.42 million or 48.37% and $128.33 million or 19.17%, respectively, in federal funds purchased and Federal Home Loan Bank borrowings. The following discussion explains in more detail the changes in financial condition by major category.

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Cash and Cash Equivalents

Cash and cash equivalents increased $66.08 million or 43.06% comparing September 30, 2005 to year-end 2004. Of this total increase, cash and due from banks increased $46.75 million while federal funds sold increased $26.75 million. Interest-bearing deposits with other banks decreased $7.41 million. During the first nine months of 2005, net cash of $81.09 million and $128.58 million was provided by operating activities and financing activities from continuing operations, respectively. Net cash of $143.59 million was used in investing activities of continuing operations. 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 2005 and 2004.

Securities

Total investment securities at September 30, 2005 decreased $60.66 million or 4.02% since year-end 2004. Securities available for sale decreased $58.09 million or 4.55%. This change in securities available for sale reflects $389.59 million in sales, maturities and calls of securities, $348.28 million in purchases and a decrease of $12.43 million in market value. Securities held to maturity decreased $2.57 million or 1.10% from year-end 2004. The amortized cost and estimated fair value of investment securities, including types and remaining maturities, is presented in Note 3 to the unaudited Notes to Consolidated Financial Statements.

Loans

Loans held for sale increased $845 thousand or 21.23% as loan originations exceeded loan sales in the secondary market during the first nine months of 2005. Portfolio loans, net of unearned income, increased $182.13 million or 4.12% from year-end 2004 as all major classification of loans increased except for installment and other loans secured by real estate. Since year-end 2004, commercial loans (not secured by real estate) increased $27.04 million or 3.13%, construction loans increased $55.02 million or 18.13%, single-family residential real estate loans increased $57.68 million or 3.47% and commercial real estate loans increased $66.41 million or 6.24%. Installment loans decreased $13.79 million or 3.39% and other real estate secured loans decreased $9.95 million or 8.08% from year-end 2004. For a summary of major classifications of loans, see Note 4 to the unaudited Notes to Consolidated Financial Statements.

Other Assets

Other assets increased $8.20 million or 5.21% from year-end 2004. This increase was primarily due to a $4.03 million increase in prepaid pension, a $3.23 million increase in the cash surrender value of bank owned life insurance policies and a $3.18 million increase in deferred tax assets related to the decline in market value of available for sale securities. Partially offsetting these increases to other assets were declines of $1.66 million and $1.76 million, respectively, in the levels of other real estate owned and core deposit intangibles.

Deposits

Total deposits at September 30, 2005 grew $312.17 million or 7.26% since year-end 2004. In terms of composition, noninterest-bearing deposits increased $98.10 million or 11.08% while interest-bearing deposits increased $214.07 million or 6.27% from December 31, 2004. The increase in noninterest-bearing deposits was due mainly to a $31.24 million or 7.49% increase in commercial demand deposits. The increase in interest-bearing deposits was due primarily to growth of $111.15 million or 22.46% in certificate accounts (CDs) over $100,000 due to higher interest rates. Brokered deposits accounted for $39.77 million of this increase in CDs over $100,000. In addition, money market accounts grew $109.14 million or 7.24% for the first nine months of 2005.

Borrowings

Total borrowings at September 30, 2005 decreased $124.29 million or 8.63% during the first nine months of 2005. Since year-end 2004, federal funds purchased and FHLB borrowings decreased $63.42 million or 48.37% and $128.33 million or 19.17%, respectively. Securities sold under agreements to repurchase increased $69.72 million or 12.76%. 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, 2005 increased $1.77 million or 3.03% from year-end 2004 due mainly to increases in deferred compensation of $2.75 million, interest payable of $1.92 million due to higher interest rates and the FAS 133 liability related to a decline in the fair value of certain interest rate swaps of $1.62 million. Partially offsetting these increases were decreases in income taxes payable of $3.59 million due mainly to a timing difference in income tax payments and other taxes payable not related to income of $901 thousand.

Shareholders Equity

Shareholders equity at September 30, 2005, increased $7.04 million or 1.11% from December 31, 2004 as United continued to balance capital adequacy and returns to shareholders. The increase in shareholders equity was due mainly to earnings net of dividends declared of $41.50 million for the first nine months of 2005.

Treasury stock increased $26.54 million since year-end 2004 as treasury share repurchases exceeded stock option redemptions during the first nine months of 2005. During the first nine months of 2005, United repurchased 863,574 shares under a plan approved by its Board of Directors in 2004 to repurchase up to 1.775 million shares of United s common stock on the open market. Since the plan s implementation, 867,551 shares have been repurchased.

RESULTS OF OPERATIONS

Overview

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

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

Consolidated net income for the first nine months of 2005 was $74.72 million or $1.73 per diluted share compared to $72.26 million or $1.64 per share for the first nine months of 2004. These results represent a 3.41% increase in net income and a 5.49% increase in diluted earnings per share. Consolidated net income for the third quarter of 2005 was $24.45 million, an increase of 3.69% from the $24.54 million reported for the prior year third quarter. Third quarter 2005 earnings were $0.59 per diluted share, as compared to the $0.56 per share reported for the third quarter of 2004. This represents a 5.36% increase in diluted earnings per share.

Income from continuing operations for the third quarter and first nine months of 2005 was $25.45 million and $74.72 million as compared to income from continuing operations for the third quarter and first nine months of 2004 of $12.75 million and $57.82 million, respectively. Diluted earnings per share from continuing operations were $0.59 and $1.73 for the third quarter and first nine months of 2005, respectively as compared to diluted earnings per share from continuing operations of $0.29 and $1.31 for the third quarter and first nine months of 2004. The results for 2004 included before-tax penalties of $16.01 million for the prepayment of FHLB advances.

No income from discontinued operations was recorded for the third quarter and first nine months of 2005 because the sale of Mason Mortgage occurred in 2004. Income from discontinued operations for the third quarter and first nine months of 2004 was $11.79 million or $0.27 per diluted share and $14.45 million or $0.33 per diluted share, respectively. The results of discontinued operations for the third quarter and first nine months of 2004 included a before-tax gain of $17 million on the Mason Mortgage sale.

United s annualized return on average assets for the first nine months of 2005 was 1.56% and return on average shareholders equity was 15.63% as compared to 1.53% and 15.44% for the first nine months of 2004. For the third quarter of 2005, United s annualized return on average assets was 1.55% while the return on average equity was 15.68% as compared to 1.57% and 15.75%, respectively, for the third quarter of 2004.

Consolidated tax-equivalent net interest income for the first nine months of 2005 was $172.16 million, an increase of $7.22 million or 4.38% from the prior year s first nine months. Consolidated tax-equivalent net interest income increased $5.15 million or 9.39% for the third quarter of 2005 as compared to the same period for 2004. The provision for credit losses was $3.56 million for the first nine months of 2005 as compared to $3.19 million for the first nine months of 2004. For the quarters ended September 30, 2005 and 2004, the provision for credit losses was $1.95 million and $1.30 million, respectively. Consolidated noninterest income was $39.31 million for the first nine months of 2005, down $34.65 million or 46.85% when compared to the first nine months of 2004. For the third quarter of 2005, consolidated noninterest income was $13.04 million, a decrease of $17.92 million or 57.89% from the third quarter of 2004. Consolidated noninterest income for the third quarter and first nine months of 2004 included the previously mentioned before-tax gain of $17 million on the Mason Mortgage sale. Consolidated noninterest expense decreased $32.88 million or 26.79% for the first nine months of 2005 compared to the same period in 2004. For the third quarter of 2005, consolidated noninterest expenses decreased $15.74 million or 34.02% from

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the third quarter of 2004. Consolidated noninterest expense for 2004 included before-tax penalties of $16.01 million for the prepayment of FHLB advances. United s effective tax rate was 31.46% and 30.87% for the first nine months of 2005 and 2004, respectively, and 31.65% and 31.01% for the third quarter of 2005 and 2004, respectively.

Net Interest Income

Consolidated tax-equivalent net interest income increased $5.15 million or 9.39% and $7.22 million or 4.38% for the third quarter and first nine months of 2005, respectively, when compared to the same periods of 2004.

Tax-equivalent net interest income from continuing operations for the third quarter of 2005 was $59.98 million, an increase of $5.15 million or 9.39% from the third quarter of 2004. This increase in tax-equivalent net interest income from continuing operations was due mainly to a $342.83 million or 6.08% increase in average earning assets as average loans for the third quarter of 2005 grew $337.04 million or 8.02% over last year s third quarter. In addition, the average yield on earning assets for the third quarter of 2005 increased 79 basis points from the third quarter of 2004 as a result of higher interest rates. In the third quarter of 2005, the net interest margin was aided by additional interest income of approximately $1.83 million from United s asset securitization as compared to the third quarter of 2004. These increases to net interest income were partially offset by an 82 basis point increase in the cost of funds due to the higher interest rates. On a consolidated basis, the net interest margin for the third quarter of 2005 was 4.00%, an increase of 14 basis points from 3.86% in the third quarter of 2004.

On a linked-quarter basis, United s tax-equivalent net interest income from continuing operations for the third quarter of 2005 increased $3.56 million or 6.30% compared to the second quarter of 2004 due primarily to growth in earning assets of $160.78 million or 2.76% for the quarter. Average loans grew $95.90 million or 2.16% for the quarter while the yield on average loans increased 23 basis points. In addition, average investment securities increased $73.45 million or 5.28% for the quarter while the yield on average investment securities increased 53 basis points due mainly to increased interest income for the quarter of $1.72 million on United s asset securitization. These increases to net interest income were partially offset by an increase of 25 basis points in the cost of funds. The net interest margin for the third quarter of 2005 of 4.00% was an increase of 12 basis points from the net interest margin of 3.88% for the second quarter of 2005.

Tax-equivalent net interest income from continuing operations for the first nine months of 2005 was $172.16 million, an increase of $12.53 million or 7.85% from the prior year s first nine months as average earning assets increased $334.75 million or 6.04% due to average loan growth of $353.24 million or 8.60%. For the nine months ended September 30, 2005, interest income from United s asset securitization increased $1.77 million from the same period in 2004. In addition, the average yield on earning assets for the first nine months of 2005 increased 53 basis points from the first nine months of 2004 due to higher interest rates. However, as a result of the higher interest rates, the average cost of funds for the first nine months of 2005 increased 57 basis points from the first nine months of 2004. The consolidated net interest margin for the first nine months of 2005 was 3.91%, up 8 basis points from a consolidated net interest margin of 3.83% during the same period last year.

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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, 2005 and 2004, respectively, with the consolidated interest and rate earned or paid on such amount. The interest income and yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%. The interest income and yield on state nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory state income rate of 9%.

Table 1

	Three Months Ended September 30, 2005			**Three Months Ended September 30, 2004**		
(Dollars in thousands)	**Average Balance**	**Interest**	**Avg. Rate**	**Average Balance**	**Interest**	**Avg. Rate**
ASSETS						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	$ 23,286	$ 232	3.94%	$ 59,206	$ 168	1.13%
Investment Securities:						
Taxable	1,257,562	14,480	4.57%	1,240,719	13,804	4.43%
Tax-exempt (1) (2)	207,324	5,376	10.29%	189,279	3,005	6.32%
Total Securities	1,464,886	19,856	5.38%	1,429,998	16,809	4.68%
Loans, net of unearned income (1) (2) (3)	4,539,307	72,727	6.37%	4,225,407	59,482	5.61%
Allowance for loan losses	(43,589)			(50,422)		
Net loans	4,495,718		6.43%	4,174,985		5.68%
Total earning assets	5,983,890	$ 92,815	6.17%	5,664,189	$ 76,459	5.38%
Other assets	544,240			539,573		
TOTAL ASSETS	$ 6,528,130			$ 6,203,762		
LIABILITIES						
Interest-Bearing Funds:						
Interest-bearing deposits	$ 3,619,271	$ 19,626	2.15%	$ 3,436,008	$ 12,312	1.43%
Short-term borrowings	720,313	4,656	2.56%	631,826	1,534	0.97%
Long-term borrowings	556,798	8,550	6.09%	603,502	7,778	5.13%
Total Interest-Bearing Funds	4,896,382	32,832	2.66%	4,671,336	21,624	1.84%
Noninterest-bearing deposits	935,972			864,559		
Accrued expenses and other liabilities	51,700			48,065		
TOTAL LIABILITIES	5,884,054			5,583,960		

SHAREHOLDERS EQUITY	644,076		619,802	
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 6,528,130		$ 6,203,762	
NET INTEREST INCOME		$ 59,983		$ 54,835
INTEREST SPREAD		3.51%		3.54%
NET INTEREST MARGIN		4.00%		3.86%

(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

	Nine Months Ended September 30, 2005			Nine Months Ended September 30, 2004		
(Dollars in thousands)	**Average Balance**	**Interest**	**Avg. Rate**	**Average Balance**	**Interest**	**Avg. Rate**
ASSETS						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	$ 27,200	$ 578	2.84%	$ 36,635	$ 352	1.29%
Investment Securities:						
Taxable	1,238,934	42,139	4.55%	1,272,118	40,789	4.28%
Tax-exempt (1) (2)	197,391	11,600	7.86%	180,118	9,118	6.76%
Total Securities	1,436,325	53,739	5.00%	1,452,236	49,907	4.59%
Loans, net of unearned income (1) (2) (3)	4,460,890	205,686	6.16%	4,305,486	180,963	5.61%
Allowance for loan losses	(43,535)			(50,478)		
Net loans	4,417,355		6.22%	4,255,008		5.68%
Total earning assets	5,880,880	$ 260,003	5.91%	5,743,879	$ 231,222	5.38%
Other assets	537,061			546,908		
TOTAL ASSETS	$ 6,417,941			$ 6,290,787		
LIABILITIES						
Interest-Bearing Funds:						
Interest-bearing deposits	$ 3,512,219	$ 50,946	1.94%	$ 3,312,839	$ 34,503	1.39%
Short-term borrowings	729,004	12,083	2.22%	668,828	4,775	0.95%
Long-term borrowings	582,335	24,810	5.70%	772,323	27,004	4.67%
Total Interest-Bearing Funds	4,823,558	87,839	2.43%	4,753,990	66,282	1.86%