

UNITED BANKSHARES INC/WV  
Form 10-Q  
November 10, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2014

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-13322

**United Bankshares, Inc.**

(Exact name of registrant as specified in its charter)

West Virginia  
(State or other jurisdiction of  
incorporation or organization)

55-0641179  
(I.R.S. Employer  
Identification No.)

300 United Center  
500 Virginia Street, East  
Charleston, West Virginia  
(Address of principal executive offices)

25301  
Zip Code

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

Registrant's telephone number, including area code: (304) 424-8704

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes**  **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). **Yes**  **No**

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

Class - Common Stock, \$2.50 Par Value; **69,204,424** shares outstanding as of **October 31, 2014**.

**Table of Contents**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**TABLE OF CONTENTS**

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets (Unaudited) September 30, 2014 and December 31, 2013</u>	4
<u>Consolidated Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2014 and 2013</u>	5
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2014 and 2013</u>	7
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the Nine Months Ended September 30, 2014</u>	8
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2014 and 2013</u>	9
<u>Notes to Consolidated Financial Statements</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	54
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	79
<u>Item 4. Controls and Procedures</u>	82
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	83
<u>Item 1A. Risk Factors</u>	83
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	83
<u>Item 3. Defaults Upon Senior Securities</u>	84
<u>Item 4. Mine Safety Disclosures</u>	84
<u>Item 5. Other Information</u>	84
<u>Item 6. Exhibits</u>	84
<u>Signatures</u>	85
<u>Exhibits Index</u>	86

**Table of Contents**

**PART I - FINANCIAL INFORMATION**

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

The September 30, 2014 and December 31, 2013, consolidated balance sheets of United Bankshares, Inc. and Subsidiaries ( United or the Company ), consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2014 and 2013, the related consolidated statement of changes in shareholders equity for the nine months ended September 30, 2014, the related condensed consolidated statements of cash flows for the nine months ended September 30, 2014 and 2013, and the notes to consolidated financial statements appear on the following pages.

**Table of Contents****CONSOLIDATED BALANCE SHEETS****UNITED BANKSHARES, INC. AND SUBSIDIARIES****(Dollars in thousands, except par value)**

	<b>September 30 2014 (Unaudited)</b>	<b>December 31 2013 (Note 1)</b>
<b>Assets</b>		
Cash and due from banks	\$ 186,774	\$ 134,808
Interest-bearing deposits with other banks	403,775	281,090
Federal funds sold	721	719
<b>Total cash and cash equivalents</b>	<b>591,270</b>	<b>416,617</b>
Securities available for sale at estimated fair value (amortized cost-\$1,171,947 at September 30, 2014 and \$813,049 at December 31, 2013)	1,162,559	775,284
Securities held to maturity (estimated fair value-\$38,381 at September 30, 2014 and \$38,293 at December 31, 2013)	39,969	40,965
Other investment securities	104,714	73,093
Loans held for sale	5,773	4,236
Loans	9,030,483	6,713,599
Less: Unearned income	(14,580)	(9,016)
<b>Loans net of unearned income</b>	<b>9,015,903</b>	<b>6,704,583</b>
Less: Allowance for loan losses	(75,721)	(74,198)
<b>Net loans</b>	<b>8,940,182</b>	<b>6,630,385</b>
Bank premises and equipment	78,007	69,897
Goodwill	712,065	375,547
Accrued interest receivable	32,740	26,666
Other assets	417,784	322,634
<b>TOTAL ASSETS</b>	<b>\$ 12,085,063</b>	<b>\$ 8,735,324</b>
<b>Liabilities</b>		
<b>Deposits:</b>		
Noninterest-bearing	\$ 2,538,310	\$ 1,874,520
Interest-bearing	6,214,947	4,747,051
<b>Total deposits</b>	<b>8,753,257</b>	<b>6,621,571</b>
<b>Borrowings:</b>		
Federal funds purchased	30,120	27,685
Securities sold under agreements to repurchase	396,818	188,069
Federal Home Loan Bank borrowings	930,679	592,069
Other long-term borrowings	249,863	198,628
Reserve for lending-related commitments	1,477	2,143
Accrued expenses and other liabilities	69,176	63,427
<b>TOTAL LIABILITIES</b>	<b>10,431,390</b>	<b>7,693,592</b>
<b>Shareholders Equity</b>		
Preferred stock, \$1.00 par value; Authorized-50,000,000 shares, none issued	173,061	127,169

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

Common stock, \$2.50 par value; Authorized-100,000,000 shares; issued-69,224,451 and 50,867,630 at September 30, 2014 and December 31, 2013, respectively, including 27,459 and 437,363 shares in treasury at September 30, 2014 and December 31, 2013, respectively		
Surplus	740,003	237,674
Retained earnings	765,219	734,945
Accumulated other comprehensive loss	(23,670)	(43,047)
Treasury stock, at cost	(940)	(15,009)
TOTAL SHAREHOLDERS EQUITY	1,653,673	1,041,732
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 12,085,063	\$ 8,735,324

See notes to consolidated unaudited financial statements.

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

(Dollars in thousands, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
<b>Interest income</b>				
Interest and fees on loans	\$ 97,874	\$ 71,264	\$ 281,663	\$ 213,909
Interest on federal funds sold and other short-term investments	241	157	656	446
Interest and dividends on securities:				
Taxable	7,873	4,585	21,869	11,973
Tax-exempt	869	699	2,632	2,187
<b>Total interest income</b>	<b>106,857</b>	<b>76,705</b>	<b>306,820</b>	<b>228,515</b>
<b>Interest expense</b>				
Interest on deposits	7,077	6,569	20,493	20,403
Interest on short-term borrowings	234	276	911	694
Interest on long-term borrowings	3,628	2,230	10,264	6,763
<b>Total interest expense</b>	<b>10,939</b>	<b>9,075</b>	<b>31,668</b>	<b>27,860</b>
<b>Net interest income</b>	<b>95,918</b>	<b>67,630</b>	<b>275,152</b>	<b>200,655</b>
Provision for loan losses	4,748	4,777	15,628	14,924
<b>Net interest income after provision for loan losses</b>	<b>91,170</b>	<b>62,853</b>	<b>259,524</b>	<b>185,731</b>
<b>Other income</b>				
Fees from trust and brokerage services	4,474	4,006	13,708	12,206
Fees from deposit services	11,134	10,341	31,595	30,173
Bankcard fees and merchant discounts	1,101	1,003	2,974	2,699
Other service charges, commissions, and fees	512	599	1,541	1,786
Income from bank-owned life insurance	1,325	1,138	4,021	4,712
Income from mortgage banking	774	605	1,471	2,309
Net gain on the sale of bank premises	0	0	8,976	0
Other income	404	542	1,328	2,279
<b>Total other-than-temporary impairment losses</b>	<b>(561)</b>	<b>0</b>	<b>485</b>	<b>285</b>
Portion of loss recognized in other comprehensive income	(4,153)	0	(6,259)	(1,256)
<b>Net other-than-temporary impairment losses</b>	<b>(4,714)</b>	<b>0</b>	<b>(5,774)</b>	<b>(971)</b>
Net gains on sales/calls of investment securities	1,309	101	2,134	589
<b>Net investment securities (losses) gains</b>	<b>(3,405)</b>	<b>101</b>	<b>(3,640)</b>	<b>(382)</b>
<b>Total other income</b>	<b>16,319</b>	<b>18,335</b>	<b>61,974</b>	<b>55,782</b>
<b>Other expense</b>				
Employee compensation	22,173	17,269	68,726	50,830
Employee benefits	4,753	5,842	15,567	17,510
Net occupancy expense	6,400	4,931	19,349	14,943
Other real estate owned (OREO) expense	1,818	1,535	4,968	5,135
Equipment expense	2,376	1,960	6,518	5,370

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

Data processing expense	3,785	2,880	10,611	8,424
Bankcard processing expense	350	331	1,022	988
FDIC insurance expense	1,981	1,539	5,559	4,662
Other expense	14,211	12,298	43,930	37,519
<b>Total other expense</b>	<b>57,847</b>	<b>48,585</b>	<b>176,250</b>	<b>145,381</b>
Income before income taxes	49,642	32,603	145,248	96,132
Income taxes	16,382	10,433	48,617	30,164
Net income	\$ 33,260	\$ 22,170	\$ 96,631	\$ 65,968



**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME (Unaudited) - continued****UNITED BANKSHARES, INC. AND SUBSIDIARIES****(Dollars in thousands, except per share data)**

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Earnings per common share:</b>				
Basic	\$ 0.48	\$ 0.44	\$ 1.45	\$ 1.31
Diluted	\$ 0.48	\$ 0.44	\$ 1.44	\$ 1.31
Dividends per common share	\$ 0.32	\$ 0.31	\$ 0.96	\$ 0.93
<b>Average outstanding shares:</b>				
Basic	69,044,876	50,378,613	66,836,396	50,336,741
Diluted	69,269,309	50,472,959	67,069,352	50,402,455
See notes to consolidated unaudited financial statements				

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

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income	\$ 33,260	\$ 22,170	\$ 96,631	\$ 65,968
Change in net unrealized gain (loss) on available-for-sale (AFS) securities, net of tax	1,635	2,977	18,445	1,210
Accretion of the net unrealized loss on the transfer of AFS securities to held-to-maturity (HTM) securities, net of tax	2	2	4	4
Change in pension plan assets, net of tax	309	740	928	2,223
Comprehensive income, net of tax	\$ 35,206	\$ 25,889	\$ 116,008	\$ 69,405

**Table of Contents****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, 2014						
	Common Stock		Surplus	Retained	Accumulated Other Comprehensive Income (Loss)	Treasury	Total
	Shares	Par Value					
Balance at January 1, 2014	50,867,630	\$ 127,169	\$ 237,674	\$ 734,945	(\$ 43,047)	(\$ 15,009)	\$ 1,041,732
Comprehensive income:							
Net income	0	0	0	96,631	0	0	96,631
Other comprehensive income, net of tax:	0	0	0	0	19,377	0	19,377
Total comprehensive income, net of tax							116,008
Stock based compensation expense	0	0	1,593	0	0	0	1,593
Acquisition of Virginia Commerce Bancorp, Inc. (18,330,347 shares)	18,330,347	45,826	506,436	0	0	0	552,262
Distribution of treasury stock for deferred compensation plan (3,637 shares)	0	0	0	0	0	81	81
Purchase of treasury stock (726 shares)	0	0	0	0	0	(25)	(25)
Cash dividends (\$0.96 per share)	0	0	0	(66,357)	0	0	(66,357)
Grant of restricted stock (66,949 shares)	0	0	(2,305)	0	0	2,305	0
Forfeiture of restricted stock (2,338 shares)	0	0	81	0	0	(81)	0
Common stock options exercised (368,856 shares)	26,474	66	(3,476)	0	0	11,789	8,379
Balance at September 30, 2014	69,224,451	\$ 173,061	\$ 740,003	\$ 765,219	(\$ 23,670)	(\$ 940)	\$ 1,653,673

See notes to consolidated unaudited financial statements.

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

(Dollars in thousands)

	<b>Nine Months Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 99,495</b>	<b>\$ 106,745</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities and calls of securities held to maturity	897	1,227
Proceeds from sales of securities available for sale	92,413	7,061
Proceeds from maturities and calls of securities available for sale	408,079	580,791
Purchases of securities available for sale	(403,277)	(709,876)
Purchases of bank premises and equipment	(6,300)	(3,110)
Proceeds from sales of bank premises and equipment	11,428	201
Redemption of bank-owned life insurance policies	8,930	1,953
Purchases of other investment securities	(59,123)	(31,491)
Proceeds from sales and redemptions of other investment securities	42,282	22,332
Acquisition of Virginia Commerce Bancorp, Inc., net of cash paid	97,298	0
Net change in loans	(308,225)	(98,333)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(115,598)</b>	<b>(229,245)</b>
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	(60,354)	(46,808)
Excess tax benefits from stock-based compensation arrangements	482	122
Acquisition of treasury stock	(2)	(92)
Proceeds from exercise of stock options	7,172	1,601
Repayment of long-term Federal Home Loan Bank borrowings	(421,390)	(26,402)
Proceeds from issuance of long-term Federal Home Loan Bank borrowings	775,000	275,000
Distribution of treasury stock for deferred compensation plan	81	77
Changes in:		
Deposits	110,112	(147,182)
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	(220,345)	(23,854)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>190,756</b>	<b>32,462</b>
<b>Increase (Decrease) in cash and cash equivalents</b>	<b>174,653</b>	<b>(90,038)</b>
Cash and cash equivalents at beginning of year	416,617	432,077
<b>Cash and cash equivalents at end of period</b>	<b>\$ 591,270</b>	<b>\$ 342,039</b>

See notes to consolidated unaudited financial statements.

---

**Table of Contents**

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

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**1. GENERAL**

The accompanying unaudited consolidated interim financial statements of United Bankshares, Inc. and Subsidiaries ( United or the Company ) 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, 2014 and 2013 and for the three-month and nine-month periods then ended have not been audited. The consolidated balance sheet as of December 31, 2013 has been extracted from the audited financial statements included in United's 2013 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 2013 Annual Report of United on Form 10-K. To conform to the 2013 presentation, certain reclassifications have been made to prior period amounts, which had no impact on net income, comprehensive income or stockholders' equity. 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 or unless otherwise noted.

**New Accounting Standards**

In August 2014, the FASB issued ASU 2014-14, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40), Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. ASU 2014-14 was issued to clarify the classification and measurement of certain foreclosed residential and nonresidential mortgage loans that are either fully or partially guaranteed under government programs. Specifically, creditors should reclassify loans that are within the scope of ASU 2014-14 to other receivables upon foreclosure, rather than reclassifying them to other real estate owned (OREO). ASU 2014-14 is effective for United on January 1, 2015, and is not expected to have a significant impact on the Company's financial condition or results of operation.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU 2014-12 amends the guidance in FASB ASC 718, Compensation-Stock Compensation, to bring consistency to the accounting for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. The amendments affect all entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. ASU 2014-12 is effective for United on January 1, 2016, and is not expected to have a significant impact on the Company's financial condition or results of operation.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. ASU 2014-11 modifies accounting for repurchase-to-maturity transactions and repurchase financing arrangements, as well as modifies required disclosures. Under ASU 2014-11, repurchase-to-maturity transactions, repurchase agreements executed as repurchase financings, and other typical repurchase agreements are accounted for as secured borrowings. ASU 2014-11 also eliminates off-balance-

## **Table of Contents**

sheet accounting for transfers of financial assets with contemporaneous repurchase financings. ASU 2014-11 is effective for United on January 1, 2015, and is not expected to have a significant impact on the Company's financial condition or results of operation.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Accounting Standards Codification. The amendments require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The new revenue recognition standard sets forth a five step principle-based approach for determining revenue recognition. ASU 2014-09 is effective for United on January 1, 2017. Management is currently evaluating this guidance to determine the impact on the Company's financial condition or results of operation.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. ASU 2014-04 clarifies when banks and similar institutions should reclassify mortgage loans collateralized by residential real estate properties from the loan portfolio to other real estate owned (OREO). An entity can elect either a retrospective or a prospective transition method, and early adoption is permitted. ASU 2014-04 is effective for United on January 1, 2015, and is not expected to have a significant impact on the Company's financial condition or results of operation.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. ASU 2013-02 is intended to improve the reporting of reclassifications out of accumulated other comprehensive income of various components. ASU 2013-02 requires entities to disclose in a single location, either on the face of financial statement that reports net income or in the notes, the effects of reclassification out of accumulated other comprehensive income (AOCI). For items reclassified out of AOCI and into net income in their entirety, such as realized gains or losses on available-for-sale securities reclassified into net income on sale, entities must disclose the effect on the reclassification on each affected net income item. For AOCI reclassification items that are not reclassified in their entirety into net income, such as actuarial gains or losses amortized into pension cost that may be capitalized into inventory or other assets, entities must provide a cross reference to other required U.S. GAAP disclosures. ASU 2013-02 was effective for United on January 1, 2013 and did not have a significant impact on the Company's financial condition or results of operation.

In February 2013, the FASB issued ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation is Fixed at the Reporting Date. ASU 2013-04 addresses the recognition, measurement and disclosure of certain obligations including debt arrangements, other contractual obligations, and settled litigation and judicial ruling. In particular, ASU 2013-04 requires entities to record an obligation resulting from joint and several liability arrangements that are fixed at the reporting date at the greater of the amount that the entity has agreed to pay or the amount the entity expects to pay. The guidance applies retrospectively for obligations that exist at the beginning of an entity's fiscal year of adoption. ASU 2013-04 was effective for United beginning January 1, 2014 and did not have a significant impact on the Company's financial condition or results of operation.

## **2. MERGERS AND ACQUISITIONS**

At the close of business on January 31, 2014 (Acquisition Date), United acquired 100% of the outstanding common stock of Virginia Commerce Bancorp, Inc. (Virginia Commerce), a Virginia corporation headquartered in Arlington, Virginia. The acquisition of Virginia Commerce significantly enhances United's existing footprint in the Washington, D.C. Metropolitan Statistical Area. The results of operations of Virginia Commerce are included in the consolidated results of operations from the date of acquisition.

At consummation, Virginia Commerce had assets of approximately \$2.77 billion, loans of \$2.10 billion and deposits

**Table of Contents**

of \$2.02 billion. The transaction was accounted for under the purchase acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the Acquisition Date.

The aggregate purchase price was approximately \$585.53 million, including common stock issued valued at \$547.89 million, stock options exchanged valued at \$4.37 million, \$33.263 million paid in cash to redeem the warrant held by the U.S. Department of the Treasury (the Treasury) issued by Virginia Commerce in connection with the TARP Capital Purchase Program and \$8 thousand paid in cash to holders of Virginia Commerce common stock and restricted stock in lieu of fractional shares of United common stock. The cash portion of the purchase price was funded by cash on hand. The purchase price of the warrant was based on its fair market as agreed upon by United and the Treasury. As a result of the purchase by United, the warrant has been canceled. The number of shares issued in the transaction was 18,330,347, which were valued based on the closing market price of \$29.89 for United's common shares on January 31, 2014. 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 \$335.98 million and \$17.14 million, respectively. The core deposit intangibles are expected to be amortized over ten years. Because the consideration paid was greater than the net fair value of the acquired assets and liabilities, the Company recorded goodwill as part of the acquisition. None of the goodwill from the Virginia Commerce acquisition is expected to be deductible for tax purposes. As a result of the merger, United recorded a downward fair value adjustment of \$90.39 million on the loans acquired from Virginia Commerce, a downward fair value adjustment of \$1.71 million on certain other real estate owned properties, a premium on interest-bearing deposits of \$6.01 million, a premium on term securities sold under agreements to repurchase of \$3.70 million and a discount of \$16.38 million on junior subordinated debt securities. The discount and premium amounts are being amortized or accreted on an accelerated basis over each asset's or liability's estimated remaining life at the time of acquisition. At September 30, 2014, the premium on the interest-bearing deposits and the securities sold under agreements to repurchase has an estimated remaining life of 1.25 years and 1.83 years, respectively, while the discount on the junior subordinated debt securities has an estimated remaining life of 21.22 years. United assumed approximately \$109 thousand of liabilities to provide severance benefits to terminated employees of Virginia Commerce which has no remaining balance as of September 30, 2014. The estimated fair values of the acquired assets and assumed liabilities, including identifiable intangible assets, are preliminary and subject to refinement as additional information relative to closing date fair values becomes available. Any subsequent adjustments to the fair values of acquired assets and liabilities assumed, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill within the first 12 months following the date of acquisition.

In many cases, determining the estimated fair value of the acquired assets and assumed liabilities required United to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of those determinations related to the fair valuation of acquired loans. The fair value of the acquired loans was based on the present value of the expected cash flows. Periodic principal and interest cash flows were adjusted for expected losses and prepayments, then discounted to determine the present value and summed to arrive at the estimated fair value. For such loans, the excess of cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and other factors, such as prepayments. In accordance with GAAP, there was no carry-over of Virginia Commerce's previously established allowance for loan losses. As a result, standard industry coverage ratios with regard to the allowance for credit losses are less meaningful after the acquisition of Virginia Commerce.

The acquired loans were divided into loans with evidence of credit quality deterioration, which are accounted for under ASC topic 310-30 (acquired impaired) and loans that do not meet this criteria, which are accounted for under ASC topic 310-20 (acquired performing). Acquired impaired loans have experienced a deterioration of credit quality from origination to acquisition for which it is probable that United will be unable to collect all contractually required

**Table of Contents**

payments receivable, including both principal and interest. Subsequent decreases in the expected cash flows require United to evaluate the need for additions to the Company's allowance for credit losses. Subsequent improvements in expected cash flows generally result in the recognition of additional interest income over the then remaining lives of the loans.

In conjunction with the Virginia Commerce merger, the acquired loan portfolio was accounted for at fair value as follows:

	January 31, 2014
Contractually required principal and interest at acquisition	\$ 2,683,966
Contractual cash flows not expected to be collected	(396,983)
Expected cash flows at acquisition	2,286,983
Interest component of expected cash flows	(274,462)
Basis in acquired loans at acquisition estimated fair value	\$ 2,012,521

Included in the above table is information related to acquired impaired loans. Specifically, contractually required principal and interest, cash flows expected to be collected and estimated fair value of acquired impaired loans were \$405,109, \$166,874, and \$157,759, respectively.

The consideration paid for Virginia Commerce's common equity and the amounts of acquired identifiable assets and liabilities assumed as of the Acquisition Date were as follows:

<b>Purchase price:</b>	
Value of common shares issued (18,330,347 shares)	\$ 547,894
Fair value of stock options assumed	4,368
Cash to redeem the Treasury warrant	33,263
Cash for fractional shares	8
Total purchase price	585,533
<b>Identifiable assets:</b>	
Cash and cash equivalents	130,569
Investment securities	476,541
Loans	2,012,521
Premises and equipment	10,786
Core deposit intangibles	17,143
Other assets	104,589
Total identifiable assets	\$ 2,752,149
<b>Identifiable liabilities:</b>	
Deposits	\$ 2,024,969
Short-term borrowings	263,816
Long-term borrowings	204,335
Other liabilities	11,393
Total identifiable liabilities	2,504,513
Net assets acquired including identifiable intangible assets	247,636
Resulting goodwill	\$ 337,897

The following table provides a reconciliation of goodwill:



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

Goodwill at December 31, 2013	\$ 375,547
Addition to goodwill from Virginia Commerce acquisition	337,897
Reduction to goodwill for options exercised from previous acquisitions	(37)
Reclassification from goodwill	(1,342)
Goodwill at September 30, 2014	\$ 712,065

**Table of Contents**

The operating results of United for the nine months ended September 30, 2014 include operating results of acquired assets and assumed liabilities subsequent to the Acquisition Date. The operations of United's metropolitan Washington D.C. geographic area, which primarily includes the acquired operations of Virginia Commerce, provided approximately \$73.66 million in total revenues, which represents net interest income plus other income, and approximately \$33.25 million in net income from the period from the Acquisition Date to September 30, 2014. These amounts are included in United's consolidated financial statements as of and for the nine months ended September 30, 2014. Virginia Commerce's results of operations prior to the Acquisition Date are not included in United's consolidated financial statements.

The following table presents certain unaudited pro forma information for the results of operations for the nine months ended September 30, 2014 and 2013, as if the Virginia Commerce merger had occurred on January 1, 2014 and 2013, respectively. These results combine the historical results of Virginia Commerce into United's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair valuation adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on the indicated date nor are they intended to represent or be indicative of future results of operations. In particular, no adjustments have been made to eliminate the amount of Virginia Commerce's provision for credit losses for 2014 and 2013 that may not have been necessary had the acquired loans been recorded at fair value as of the beginning of 2014 and 2013. Additionally, United expects to achieve operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts.

	Proforma	
	Nine Months Ended	
	September 30	
	2014	2013
Total Revenues <sup>(1)</sup>	\$ 346,594	\$ 347,419
Net Income	89,488	89,960

<sup>(1)</sup> Represents net interest income plus other income

**3. INVESTMENT SECURITIES**

Securities held for indefinite periods of time and all marketable equity securities are classified as available for sale and carried at estimated fair value. The amortized cost and estimated fair values of securities available for sale are summarized as follows.

**Table of Contents**

	September 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cumulative OTTI in AOCI <sup>(1)</sup>
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 93,439	\$ 697	\$ 138	\$ 93,998	\$ 0
State and political subdivisions	132,583	3,260	2	135,841	0
Residential mortgage-backed securities					
Agency	537,886	5,049	1,303	541,632	0
Non-agency	12,871	730	0	13,601	458
Commercial mortgage-backed securities					
Agency	312,582	1,016	4,381	309,217	0
Asset-backed securities	8,005	26	0	8,031	0
Trust preferred collateralized debt obligations	52,370	767	14,318	38,819	28,040
Single issue trust preferred securities	13,747	291	1,828	12,210	0
Other corporate securities	4,997	162	0	5,159	0
Marketable equity securities	3,467	584	0	4,051	0
<b>Total</b>	<b>\$ 1,171,947</b>	<b>\$ 12,582</b>	<b>\$ 21,970</b>	<b>\$ 1,162,559</b>	<b>\$ 28,498</b>

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cumulative OTTI in AOCI <sup>(1)</sup>
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 172,324	\$ 178	\$ 748	\$ 171,754	\$ 0
State and political subdivisions	60,861	1,874	26	62,709	0
Residential mortgage-backed securities					
Agency	215,788	2,491	1,815	216,464	0
Non-agency	16,369	163	0	16,532	458
Commercial mortgage-backed securities					
Agency	241,947	225	8,740	233,432	0
Asset-backed securities	9,257	1	31	9,227	0
Trust preferred collateralized debt obligations	73,862	210	30,623	43,449	34,299
Single issue trust preferred securities	14,346	305	2,019	12,632	0
Other corporate securities	4,996	219	0	5,215	0
Marketable equity securities	3,299	572	1	3,870	0
<b>Total</b>	<b>\$ 813,049</b>	<b>\$ 6,238</b>	<b>\$ 44,003</b>	<b>\$ 775,284</b>	<b>\$ 34,757</b>

(1) Other-than-temporary impairment in accumulated other comprehensive income. Amounts are before-tax.

The following is a summary of securities available-for-sale which were in an unrealized loss position at September 30, 2014 and December 31, 2013.

**Table of Contents**

	Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>September 30, 2014</b>				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 19,030	\$ 138	\$ 0	\$ 0
State and political subdivisions	2,783	2	0	0
Residential mortgage-backed securities				
Agency	164,364	1,303	0	0
Commercial mortgage-backed securities				
Agency	78,108	526	162,621	3,855
Asset-backed securities	0	0	0	0
Trust preferred collateralized debt obligations	0	0	34,148	14,318
Single issue trust preferred securities	0	0	8,430	1,828
Marketable equity securities	0	0	0	0
Total	\$ 264,285	\$ 1,969	\$ 205,199	\$ 20,001

**Table of Contents**

	Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2013</b>				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 61,517	\$ 748	\$ 0	\$ 0
State and political subdivisions	2,353	26	0	0
Residential mortgage-backed securities				
Agency	160,835	1,815	0	0
Commercial mortgage-backed securities				
Agency	208,979	8,740	0	0
Asset-backed securities	7,976	31	0	0
Trust preferred collateralized debt obligations	0	0	27,167	30,623
Single issue trust preferred securities	502	2	8,210	2,017
Marketable equity securities	0	0	25	1
Total	\$ 442,162	\$ 11,362	\$ 35,402	\$ 32,641

Marketable equity securities consist mainly of equity securities of financial institutions and mutual funds within a rabbi trust for the payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries. The following table shows the proceeds from maturities, sales and calls of available for sale securities and the gross realized gains and losses on sales and calls of those securities that have been included in earnings as a result of those sales and calls. Gains or losses on sales and calls of available for sale securities were recognized by the specific identification method. The realized losses relate to sales of securities within a rabbi trust for the payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2014	2013	2014	2013
Proceeds from sales and calls	\$ 64,610	\$ 183,069	\$ 500,493	\$ 587,852
Gross realized gains	1,314	109	2,366	499
Gross realized losses	5	8	232	23

At September 30, 2014, gross unrealized losses on available for sale securities were \$21,970 on 95 securities of a total portfolio of 452 available for sale securities. Securities in an unrealized loss position at September 30, 2014 consisted primarily of pooled trust preferred collateralized debt obligations (Trup Cdos) and agency commercial mortgage-backed securities. The Trup Cdos relate mainly to securities of financial institutions. The agency commercial mortgage-backed securities relate mainly to income-producing multifamily properties and provide a guaranty of full and timely payments of principal and interest by either Fannie Mae or Freddie Mac. In determining whether or not a security is other-than-temporarily impaired (OTTI), management considered the severity and the duration of the loss in conjunction with United's positive intent and the more likely than not ability to hold these securities to recovery of their cost basis or maturity.

*Agency mortgage-backed securities*

United's agency mortgage-backed securities portfolio relates to securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae. The total amortized cost of available for sale agency mortgage securities was \$850.47 million at September 30, 2014. Of the \$850.47 million, \$312.58 million was related to agency commercial mortgage securities and \$537.89 million was related to agency residential mortgage securities. Each of the agency mortgage securities provides a guarantee of full and timely payments of principal and interest by the issuing agency. Based upon management's analysis and judgment, it was determined that none of the agency mortgage-backed securities were other-than-temporarily impaired at September 30, 2014.

---

**Table of Contents***Non-agency residential mortgage-backed securities*

United's non-agency residential mortgage-backed securities portfolio relates to securities of various private label issuers. The Company has no exposure to real estate investment trusts (REITS) in its investment portfolio. The total amortized cost of available for sale non-agency residential mortgage securities was \$12.87 million at September 30, 2014. Of the \$12.87 million, \$4.03 million was rated above investment grade and \$8.84 million was rated below investment grade. Approximately 39% of the portfolio includes collateral that was originated during the year of 2005 or before. The remaining 61% includes collateral that was originated in the years of 2006 and 2007. The entire portfolio of the non-agency residential mortgage securities are either the senior or super-senior tranches of their respective structure. In determining whether or not the non-agency mortgage-backed securities are other-than-temporarily impaired, management performs an in-depth analysis on each non-agency residential mortgage-backed security on a quarterly basis. The analysis includes a review of the following factors: weighted average loan to value, weighted average maturity, average FICO scores, historical collateral performance, geographic concentration, credit subordination, cross-collateralization, coverage ratios, origination year, full documentation percentage, event risk (repricing), and collateral type. Management completes a quarterly stress test to determine the level of loss protection remaining in each individual security and compares the protection remaining to the future expected performance of the underlying collateral. Additionally, management utilizes a third-party cash flow model to perform a cash flow test for each bond below investment grade. The model produces a bond specific set of cash flows based upon assumptions input by management. The input assumptions that are incorporated include the projected constant default rate (CDR) of the underlying mortgages, the loss severity upon default, and the prepayment rate on the underlying mortgage collateral. CDR and loss severities are forecasted by management after full evaluation of the underlying collateral including recent performance statistics. Therefore, based upon management's analysis and judgment, there was no additional credit-related or noncredit-related other-than-temporary impairment recognized on the non-agency residential mortgage-backed securities at September 30, 2014.

*Single issue trust preferred securities*

The majority of United's single-issue trust preferred portfolio consists of obligations from large cap banks (i.e. banks with market capitalization in excess of \$10 billion). Management reviews each issuer's current and projected earnings trends, asset quality, capitalization levels, TARP participation status, and other key factors. Upon completing the review for the third quarter of 2014, it was determined that none of the single issue securities were other-than-temporarily impaired. All single-issue trust preferred securities are currently receiving interest payments. The available for sale single issue trust preferred securities' ratings ranged from a low of B to a high of BBB-. The amortized cost of available for sale single issue trust preferred securities as of September 30, 2014 consisted of \$2.99 million in split-rated bonds and \$10.76 million in below investment grade bonds. Of the \$10.76 million in below investment grade bonds, \$10.26 million was in an unrealized loss position for twelve months or longer as of September 30, 2014.

*Trust preferred collateralized debt obligations (Trup Cdos)*

At September 30, 2014, United determined that certain Trup Cdos were other-than-temporarily impaired. In order to determine how and when the Company recognizes OTTI, the Company first assesses its intentions regarding any sale of securities as well as the likelihood that it would be required to sell prior to recovery of the amortized cost. As of September 30, 2014, the Company has determined that it does not intend to sell any pooled trust preferred security and that it is not more likely than not that the Company will be required to sell such securities before recovery of their amortized cost.

Although the Company believes it is not more likely than not that it will be required to sell any Trup Cdo, the Company was notified by the Trustee of one Trup Cdo that it had been ordered by the holders of the senior notes to

**Table of Contents**

liquidate the underlying collateral of the security. The auction is scheduled to take place during the fourth quarter of 2014. The Company estimates that the proceeds from the auction will be insufficient to cover the amortized cost basis of the security. Due to this estimated shortfall, the Company recognized credit-related other-than-temporary impairment of \$4.71 million during the third quarter of 2014 related to this security.

During the third quarter of 2014, the Company sold four Trup Cdos in response to Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the Volcker Rule. Under the Volcker Rule, these four securities were identified by the Company as covered funds and were required to be divested of before July 21, 2015. The execution of these sales resulted in a total net gain of \$1.3 million. The Company does not expect any further direct impact from the Volcker Rule, as the remaining Trup Cdo portfolio is excluded from the scope of the Rule.

To determine a net realizable value and assess whether other-than-temporary impairment existed on securities which the Company is not more likely than not required to sell, management performed detailed cash flow analysis to determine whether, in management's judgment, it was more likely that United would not recover the entire amortized cost basis of the security. The Company discounts the security-specific cash flow projection at the security-specific interest rate and compares the present value to the amortized cost. Management's cash flow analysis was performed for each security and considered the current deferrals and defaults within the underlying collateral, the likelihood that current deferrals would cure or ultimately default, potential future deferrals and defaults, potential prepayments, cash reserves, excess interest spread, credit analysis of the underlying collateral and the priority of payments in the cash flow structure. The underlying collateral analysis for each issuer took into consideration multiple factors including TARP participation, capital adequacy, earnings trends and asset quality.

After completing its analysis of estimated cash flows, management determined that none of the Trup Cdos experienced an adverse change in cash flows during the third quarter of 2014, as the expected discounted cash flows from these securities were greater than or equal to the discounted cash flows originally expected at purchase or from the previous date of other-than-temporary impairment (cash flows are discounted at the contractual coupon rate for purposes of assessing OTTI).

Other than the \$4.71 million mentioned above, there was no additional credit-related other-than-temporary impairment recognized in earnings for the third quarter of 2014 related to Trup Cdos. There was no credit-related other-than-temporary impairment recognized in earnings for the third quarter of 2013 related to these securities. At September 30, 2014, the balance of the noncredit-related other-than-temporary impairment recognized on United's Trup Cdo portfolio was \$28.04 million as compared to \$34.30 million at December 31, 2013. This decline is attributable to improvements in the overall fair values of these securities.

The amortized cost of available for sale Trup Cdos as of September 30, 2014 consisted of \$5.00 million in split-rated bonds and \$47.37 million in below investment grade bonds.

The following is a summary of the available for sale Trup Cdos as of September 30, 2014:

Class	Amortized Cost	Fair Value	Unrealized Loss/(Gain)	Investment Grade	Amortized Cost	
					Split Rated	Below Investment Grade
Senior Bank	\$ 7,725	\$ 6,133	\$ 1,592	\$ 0	\$ 5,000	\$ 2,725
Mezzanine Bank (now in senior position)	12,599	9,658	2,941	0	0	12,599
Mezzanine Bank	26,883	19,045	7,838	0	0	26,883
Mezzanine Bank & Insurance (combination)	5,163	3,983	1,180	0	0	5,163
<b>Totals</b>	<b>\$ 52,370</b>	<b>\$ 38,819</b>	<b>\$ 13,551</b>	<b>\$ 0</b>	<b>\$ 5,000</b>	<b>\$ 47,370</b>

## Table of Contents

While a large difference remains between the fair value and amortized cost, the Company believes the remaining unrealized losses are related to the illiquid market for Trup Cdos rather than an adverse change in expected cash flows. The expected future cash flow substantiates the return of the remaining amortized cost of the security. The Company believes the following evidence supports the position that the remaining unrealized loss is related to the illiquid market for Trup Cdos:

The market for new issuance of Trup Cdos was robust from 2000 to 2007 with an estimated \$60 billion in new issuance. The new market issuances came to an abrupt halt in 2007.

The secondary market for Trup Cdos ultimately became illiquid and is not reflective of orderly transactions between market participants. In making this determination, the Company holds discussions with institutional traders to identify trends in the number and type of transactions related to the Trup Cdos. Although market conditions for these securities have improved in recent quarters, the Company notes that the overall amount of observable market data is still lacking.

The presence of a below-investment grade rating severely limits the pool of available buyers and contributes to the illiquidity of the market.

Trup Cdos have a more complex structure than most debt instruments, making projections of tranche returns difficult for non-specialists in the product. Deferral features available to the underlying issuers within each pool are unique to these securities. Additionally, it can be difficult for market participants to predict whether deferrals will ultimately cure or ultimately default. Due to the lack of transparency, market participants will require a higher risk premium, thus resulting in higher required discount rates.

The variability of cash flows at the time the securities were originated was expected to be very limited. Due to the financial crisis, Trup Cdos have experienced more substantive variability of cash flows compared to expectations, resulting in a higher risk premium when evaluating discount rates.

The limited, yet relevant, observable inputs indicate that market yield requirements for Trup Cdos, on a credit-adjusted basis, remained very high relative to discount rates at purchase and compared to other similarly rated debt securities.

Overall, the Company believes the lack of new issuances, illiquid secondary market, limited pool of buyers, below investment grade ratings, complex structures and high market discount rates are the key drivers of the remaining unrealized losses in the Company's Trup Cdos and the robust expected cash flow analysis substantiates the return of the remaining amortized cost under ASC 320.

Management also considered the ratings of the Company's bonds in its portfolio and the extent of downgrades in United's impairment analysis. However, due to historical discrepancies in ratings from the various rating agencies, management considered it imperative to independently perform its own credit analysis based on cash flows as described. The ratings of the split-rated Trup Cdos in the table above range from a low of BB+ to a high of Aa1. The below investment grade Trup Cdos range from a low of Ca to a high of Ba1.

The Company has recognized cumulative credit-related other-than-temporary impairment of \$48.88 million on certain Trup Cdos since the third quarter of 2009.

On the Trup Cdos that have not been deemed to be other-than-temporarily impaired, the collateralization ratios range from a low of 97.4% to a high of 240.3%, with a median of 135.7%, and a weighted average of 174.8%. The collateralization ratio is defined as the current performing collateral in a security, divided by the current balance of the specific tranche the Company owns, plus any debt which is senior or pari passu with the Company's security's priority level. Performing collateral excludes the balance of any issuer that has either defaulted or has deferred its interest payment. It is not uncommon for the collateralization of a security that is not other-than-temporarily impaired to be less than 100% due to the excess spread built into the securitization structure.

Except for the debt securities that have already been deemed to be other-than-temporarily impaired, management does





**Table of Contents**

not believe any other individual security with an unrealized loss as of September 30, 2014 is other-than-temporarily impaired. For these securities, United believes the decline in value resulted from changes in market interest rates, credit spreads and liquidity, not a change in the expected contractual cash flows. Based on a review of each of the securities in the investment portfolio, management concluded that it expected to recover the amortized cost basis of the investment in such securities.

*Equity securities*

The amortized cost of United's equity securities was \$3.47 million at September 30, 2014. For equity securities, management has evaluated the near-term prospects of the investment in relation to the severity and duration of any impairment and based on that evaluation, management determined that no equity securities were other-than-temporarily impaired at September 30, 2014. These securities were in an unrealized gain position of \$584 thousand at September 30, 2014.

*Other investment securities (cost method)*

During the third quarter of 2014, United also evaluated all of its cost method investments to determine if certain events or changes in circumstances during the third quarter of 2014 had a significant adverse effect on the fair value of any of its cost method securities. United determined that there were no events or changes in circumstances during the third quarter which would have an adverse effect on the fair value of any of its cost method securities. Therefore, no impairment was recorded.

Below is a progression of the credit losses on securities which United has recorded other-than-temporary charges through earnings and other comprehensive income.

Balance of cumulative credit losses at December 31, 2013	\$ 70,446
Additions for credit losses on securities for which OTTI was not previously recognized	0
Additions for additional credit losses on securities for which OTTI was previously recognized	5,774
Balance of cumulative credit losses at September 30, 2014	\$ 76,220

The amortized cost and estimated fair value of securities available for sale at September 30, 2014 and December 31, 2013 by contractual maturity are shown as follows. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations without penalties.

	September 30, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 26,751	\$ 26,981	\$ 28,837	\$ 28,960
Due after one year through five years	153,260	153,718	217,415	218,498
Due after five years through ten years	365,664	366,395	292,460	286,534
Due after ten years	622,805	611,414	271,038	237,422
Marketable equity securities	3,467	4,051	3,299	3,870
Total	\$ 1,171,947	\$ 1,162,559	\$ 813,049	\$ 775,284

**Table of Contents**

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

	Amortized Cost	September 30, 2014		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 10,640	\$ 1,403	\$ 0	\$ 12,043
State and political subdivisions	9,989	32	391	9,630
Residential mortgage-backed securities				
Agency	42	7	0	49
Single issue trust preferred securities	19,278	0	2,639	16,639
Other corporate securities	20	0	0	20
<b>Total</b>	<b>\$ 39,969</b>	<b>\$ 1,442</b>	<b>\$ 3,030</b>	<b>\$ 38,381</b>

	Amortized Cost	December 31, 2013		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 10,762	\$ 1,689	\$ 0	\$ 12,451
State and political subdivisions	10,367	37	299	10,105
Residential mortgage-backed securities				
Agency	50	9	0	59
Single issue trust preferred securities	19,766	0	4,108	15,658
Other corporate securities	20	0	0	20
<b>Total</b>	<b>\$ 40,965</b>	<b>\$ 1,735</b>	<b>\$ 4,407</b>	<b>\$ 38,293</b>

Even though the market value of the held-to-maturity investment portfolio is less than its cost, the unrealized loss has no impact on the net worth or regulatory capital requirements of United. As of September 30, 2014, the Company's two largest held-to-maturity single-issue trust preferred exposures were to Wells Fargo (\$9.91 million) and SunTrust Bank (\$7.40 million). The two held-to-maturity single-issue trust preferred exposures with at least one rating below investment grade included SunTrust Bank (\$7.40 million) and Royal Bank of Scotland (\$973 thousand). Other corporate securities consist mainly of bonds of corporations.

The following table shows the gross realized gains and losses on calls that have been included in earnings as a result of those calls. Gains or losses on calls of held-to-maturity securities are recognized by the specific identification method.

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Gross realized gains	\$ 9	\$ 0	\$ 9	\$ 114
Gross realized losses	0	0	0	0

The amortized cost and estimated fair value of debt securities held to maturity at September 30, 2014 and December 31, 2013 by contractual maturity are shown on the following page. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations without penalties.



**Table of Contents**

	September 30, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 570	\$ 571	\$ 555	\$ 556
Due after one year through five years	12,750	14,165	6,683	7,312
Due after five years through ten years	6,444	6,069	13,026	13,821
Due after ten years	20,205	17,576	20,701	16,604
<b>Total</b>	<b>\$ 39,969</b>	<b>\$ 38,381</b>	<b>\$ 40,965</b>	<b>\$ 38,293</b>

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 \$1,017,560 and \$640,870 at September 30, 2014 and December 31, 2013, respectively.

**4. LOANS**

Major classes of loans are as follows:

	September 30, 2014	December 31, 2013
<b>Commercial, financial and agricultural:</b>		
Owner-occupied commercial real estate	\$ 1,044,951	\$ 654,963
Nonowner-occupied commercial real estate	2,718,821	1,917,785
Other commercial loans	1,592,606	1,338,355
<b>Total commercial, financial &amp; agricultural</b>	<b>5,356,378</b>	<b>3,911,103</b>
Residential real estate	2,229,353	1,821,378
Construction & land development	1,088,627	670,364
<b>Consumer:</b>		
Bankcard	10,110	11,023
Other consumer	346,015	299,731
<b>Total gross loans</b>	<b>\$ 9,030,483</b>	<b>\$ 6,713,599</b>

The table above does not include loans held for sale of \$5,773 and \$4,236 at September 30, 2014 and December 31, 2013, respectively. Loans held for sale consist of single-family residential real estate loans originated for sale in the secondary market.

The outstanding balances in the table above include acquired impaired loans with a recorded investment of \$163,473 or 1.81% of total gross loans at September 30, 2014 and \$31,099 or less than 1% of total gross loans at December 31, 2013. The contractual principal in these acquired impaired loans was \$250,933 and \$52,237 at September 30, 2014 and December 31, 2013, respectively. The balances above do not include future accretable net interest (i.e. the difference between the undiscounted expected cash flows and the recorded investment in the loan) on the acquired impaired loans.

Activity for the accretable yield for the first nine months of 2014 follows:

Accretable yield at the beginning of the period	\$ 2,251
Additions	9,116
Accretion (including cash recoveries)	(6,051)
Net reclassifications to accretable from non-accretable	1,700
Disposals (including maturities, foreclosures, and charge-offs)	(628)

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

Accretable yield at the ending of the period

\$ 6,388

---

**Table of Contents**

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 \$197,380 and \$150,798 at September 30, 2014 and December 31, 2013, respectively.

**5. CREDIT QUALITY**

Management monitors the credit quality of its loans on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of each loan.

For all loan classes, past due loans are reviewed on a monthly basis to identify loans for nonaccrual status. Generally, when collection in full of the principal and interest is jeopardized, the loan is placed on nonaccrual status. The accrual of interest income on commercial and most consumer loans generally is discontinued when a loan becomes 90 to 120 days past due as to principal or interest. However, regardless of delinquency status, if a loan is fully secured and in the process of collection and resolution of collection is expected in the near term (generally less than 90 days), then the loan will not be placed on nonaccrual status. When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for loan losses. United's method of income recognition for loans that are classified as nonaccrual is to recognize interest income on a cash basis or apply the cash receipt to principal when the ultimate collectibility of principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection. Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest has been paid and the borrower has evidenced their ability to meet the contractual provisions of the note.

A loan is categorized as a troubled debt restructuring (TDR) if a concession is granted and there is deterioration in the financial condition of the borrower. TDRs can take the form of a reduction of the stated interest rate, splitting a loan into separate loans with market terms on one loan and concessionary terms on the other loan, receipts of assets from a debtor in partial or full satisfaction of a loan, the extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk, the reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement, the reduction of accrued interest or any other concessionary type of renegotiated debt. As of September 30, 2014, United had TDRs of \$13,502 as compared to \$8,157 as of December 31, 2013. Of the \$13,502 aggregate balance of TDRs at September 30, 2014, \$820 was on nonaccrual status and included in the *Loans on Nonaccrual Status* on the following page. Of the \$8,157 aggregate balance of TDRs at December 31, 2013, \$861 was on nonaccrual status and included in the *Loans on Nonaccrual Status* on the following page. As of September 30, 2014, there were no commitments to lend additional funds to debtors owing receivables whose terms have been modified in TDRs. At September 30, 2014, United had restructured loans in the amount of \$4,012 that were modified by a reduction in the interest rate, \$8,523 that were modified by a combination of a reduction in the interest rate and the principal and \$967 that was modified by a change in terms.

A loan acquired and accounted for under ASC topic 310-30 *Loans and Debt Securities Acquired with Deteriorated Credit Quality* is reported as an accruing loan and a performing asset, even if contractually past due (or if United does not expect to receive payment in full based on the original contractual terms), as United is currently accreting interest income over the expected life of the loans. See Notes 2 and 4 in the Notes to Consolidated Financial Statements for additional information on these loans.

**Table of Contents**

No loans were restructured during the three months ended September 30, 2014 and 2013. The following table sets forth United's troubled debt restructurings that have been restructured during the nine months ended September 30, 2014 and 2013, segregated by class of loans:

	Troubled Debt Restructurings For the Nine Months Ended					
	September 30, 2014			September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial real estate:						
Owner-occupied	0	\$ 0	\$ 0	4	\$ 5,143	\$ 4,590
Nonowner-occupied	0	0	0	0	0	0
Other commercial	2	5,630	5,630	0	0	0
Residential real estate	0	0	0	0	0	0
Construction & land development	0	0	0	0	0	0
Consumer:						
Bankcard	0	0	0	0	0	0
Other consumer	0	0	0	0	0	0
Total	2	\$ 5,630	\$ 5,630	4	\$ 5,143	\$ 4,590

During the first nine months of 2014, \$5,630 of restructured loans were modified by a combination of a reduction in the interest rate and an extension of the maturity date. During the first nine months of 2013, a restructured loan of \$2,974 was modified by a combination of a reduction in the interest rate and an extension of the maturity date. The remaining \$1,616 of loans restructured during the first nine months of 2013 was modified by a reduction in the interest rate. In some instances, the post-modification balance on a restructured loan is larger than the pre-modification balance due to the advancement of monies for items such as delinquent taxes on real estate property. The loans were evaluated individually for allocation within United's allowance for loan losses. The modifications had an immaterial impact on the financial condition and results of operations for United.

The following table presents troubled debt restructurings, by class of loan, that had charge-offs during the three months ended September 30, 2014. During the time periods indicated, the loan's principal was reduced through a charge-off to the value of the underlying collateral. No troubled debt restructurings had charge-offs during the three months ended September 30, 2013.

(In thousands)	Three Months Ended September 30, 2014	
	Number of Contracts	Recorded Investment
<b>Troubled Debt Restructurings</b>		
Commercial real estate:		
Owner-occupied	0	\$ 0
Nonowner-occupied	1	478
Other commercial	0	0
Residential real estate	0	0
Construction & land development	0	0
Consumer:		
Bankcard	0	0
Other consumer	0	0
Total	1	\$ 478





**Table of Contents**

The following table presents troubled debt restructurings, by class of loan, that had charge-offs during the nine months ended September 30, 2014 and 2013.

(In thousands)	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
<b>Troubled Debt Restructurings</b>				
Commercial real estate:				
Owner-occupied	0	\$ 0	0	\$ 0
Nonowner-occupied	1	478	0	0
Other commercial	0	0	0	0
Residential real estate	0	0	0	0
Construction & land development	0	0	1	375
Consumer:				
Bankcard	0	0	0	0
Other consumer	0	0	0	0
<b>Total</b>	<b>1</b>	<b>\$ 478</b>	<b>1</b>	<b>\$ 375</b>

The following table sets forth United's age analysis of its past due loans, segregated by class of loans:

**Age Analysis of Past Due Loans****As of September 30, 2014**

(In thousands)	30-89	90 Days or	Total Past Due	Current & Other (1)	Total Loans	Recorded Investment >90 Days & Accruing
	Days Past Due	more Past Due				
Commercial real estate:						
Owner-occupied	\$ 14,148	\$ 9,634	\$ 23,782	\$ 1,021,169	\$ 1,044,951	\$ 674
Nonowner-occupied	27,990	13,849	41,839	2,676,982	2,718,821	1,028
Other commercial	20,239	18,070	38,309	1,554,297	1,592,606	6,197
Residential real estate	41,714	26,957	68,671	2,160,682	2,229,353	6,809
Construction & land development	6,729	14,905	21,634	1,066,993	1,088,627	305
Consumer:						
Bankcard	371	185	556	9,554	10,110	185
Other consumer	7,921	1,627	9,548	336,467	346,015	1,494
<b>Total</b>	<b>\$ 119,112</b>	<b>\$ 85,227</b>	<b>\$ 204,339</b>	<b>\$ 8,826,144</b>	<b>\$ 9,030,483</b>	<b>\$ 16,692</b>

- (1) Other includes loans with a recorded investment of \$163,473 acquired and accounted for under ASC topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality .

**Age Analysis of Past Due Loans****As of December 31, 2013**

	<b>30-89 Days Past Due</b>	<b>90 Days or more Past Due</b>	<b>Total Past Due</b>	<b>Current &amp; Other (1)</b>	<b>Total Financing Receivables</b>	<b>Recorded Investment &gt;90 Days &amp; Accruing</b>
<b>Commercial real estate:</b>						
Owner-occupied	\$ 14,144	\$ 4,537	\$ 18,681	\$ 636,282	\$ 654,963	\$ 1,383
Nonowner-occupied	30,836	11,725	42,561	1,875,224	1,917,785	186
Other commercial	54,319	11,794	66,113	1,272,242	1,338,355	896
Residential real estate	54,271	25,446	79,717	1,741,661	1,821,378	5,214
Construction & land development	9,921	18,491	28,412	641,952	670,364	1,611
<b>Consumer:</b>						
Bankcard	229	128	357	10,666	11,023	128

**Table of Contents****Age Analysis of Past Due Loans**

As of December 31, 2013

	30-89 Days Past Due	90 Days or more Past Due	Total Past Due	Current & Other (1)	Total Financing Receivables	Recorded Investment >90 Days & Accruing
Other consumer	9,466	1,712	11,178	288,553	299,731	1,626
Total	\$ 173,186	\$ 73,833	\$ 247,019	\$ 6,466,580	\$ 6,713,599	\$ 11,044

(1) Other includes loans with a recorded investment of \$31,099 acquired and accounted for under ASC topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality .

The following table sets forth United's nonaccrual loans, segregated by class of loans:

**Loans on Nonaccrual Status**

	September 30, 2014	December 31, 2013
Commercial real estate:		
Owner-occupied	\$ 8,960	\$ 3,154
Nonowner-occupied	12,821	11,539
Other commercial	11,873	10,898
Residential real estate	20,148	20,232
Construction & land development	14,600	16,880
Consumer:		
Bankcard	0	0
Other consumer	133	86
Total	\$ 68,535	\$ 62,789

United assigns credit quality indicators of pass, special mention, substandard and doubtful to its loans. For United's loans with a corporate credit exposure, United internally assigns a grade based on the creditworthiness of the borrower. For loans with a consumer credit exposure, United internally assigns a grade based upon an individual loan's delinquency status. United reviews and updates these grades on a quarterly basis, as necessary.

Special mention loans, with a corporate credit exposure, have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or in the Company's credit position at some future date. Borrowers may be experiencing adverse operating trends (declining revenues or margins) or an ill proportioned balance sheet (e.g., increasing inventory without an increase in sales, high leverage, tight liquidity). Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating. Nonfinancial reasons for rating a credit exposure special mention include management problems, pending litigation, an ineffective loan agreement or other material structural weakness, and any other significant deviation from prudent lending practices. For loans with a consumer credit exposure, loans that are past due 30-89 days are considered special mention.

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

A substandard loan with a corporate credit exposure is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt by the borrower. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. They require more intensive supervision by management. Substandard loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants. For some substandard loans, the likelihood of full collection of interest and principal may be in doubt and thus, placed on nonaccrual. For loans with a consumer credit exposure, loans that are 90 days or more past due or that have been placed on nonaccrual are considered substandard.

**Table of Contents**

A loan with corporate credit exposure is classified as doubtful if it has all the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the loan, its classification as loss is deferred. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Pending events can include mergers, acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral, and refinancing. Generally, there are not any loans with a consumer credit exposure that are classified as doubtful. Usually, they are charged-off prior to such a classification. Loans classified as doubtful are also considered impaired.

The following tables set forth United's credit quality indicators information, by class of loans:

**Credit Quality Indicators****Corporate Credit Exposure****As of September 30, 2014**

	Commercial Real Estate Owner- occupied	Nonowner- occupied	Other Commercial	Construction & Land Development
Grade:				
Pass	\$ 946,727	\$ 2,539,705	\$ 1,385,308	\$ 903,780
Special mention	30,297	56,224	23,794	71,263
Substandard	67,927	122,892	182,181	113,584
Doubtful	0	0	1,323	0
Total	\$ 1,044,951	\$ 2,718,821	\$ 1,592,606	\$ 1,088,627

**As of December 31, 2013**

	Commercial Real Estate Owner- occupied	Nonowner- occupied	Other Commercial	Construction & Land Development
Grade:				
Pass	\$ 604,129	\$ 1,811,915	\$ 1,206,030	\$ 510,911
Special mention	27,576	45,617	60,668	63,375
Substandard	23,258	60,253	71,148	96,078
Doubtful	0	0	509	0
Total	\$ 654,963	\$ 1,917,785	\$ 1,338,355	\$ 670,364

**Credit Quality Indicators****Consumer Credit Exposure****As of September 30, 2014**

	Residential Real Estate	Bankcard	Other Consumer
Grade:			
Pass	\$ 2,146,423	\$ 9,554	\$ 336,157
Special mention	17,668	371	8,042
Substandard	63,787	185	1,816

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

Doubtful	1,475	0	0
Total	\$ 2,229,353	\$ 10,110	\$ 346,015

**Table of Contents**

As of December 31, 2013			
	Residential Real Estate	Bankcard	Other Consumer
Grade:			
Pass	\$ 1,773,244	\$ 10,666	\$ 288,401
Special mention	13,006	229	9,466
Substandard	35,128	128	1,712
Doubtful	0	0	152
Total	\$ 1,821,378	\$ 11,023	\$ 299,731

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful. Typically, United does not consider loans for impairment unless a sustained period of delinquency (i.e. 90 days or more) is noted or there are subsequent events that impact repayment probability (i.e. negative financial trends, bankruptcy filings, eminent foreclosure proceedings, etc.). Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. Consistent with United's existing method of income recognition for loans, interest on impaired loans, except those classified as nonaccrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The following table sets forth United's impaired loans information, by class of loans:

	Impaired Loans					
	September 30, 2014			December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>With no related allowance recorded:</b>						
Commercial real estate:						
Owner-occupied	\$ 35,355	\$ 35,355	\$ 0	\$ 4,672	\$ 4,672	\$ 0
Nonowner-occupied	60,329	60,739	0	5,938	6,651	0
Other commercial	18,535	21,910	0	10,292	17,753	0
Residential real estate	28,832	29,501	0	12,009	12,193	0
Construction & land development	43,096	44,676	0	13,866	14,662	0
Consumer:						
Bankcard	0	0	0	0	0	0
Other consumer	51	51	0	0	0	0
<b>With an allowance recorded:</b>						
Commercial real estate:						
Owner-occupied	\$ 5,036	\$ 5,036	\$ 820	\$ 4,358	\$ 4,358	\$ 638
Nonowner-occupied	7,190	7,249	773	9,350	10,563	1,631
Other commercial	13,639	16,639	4,016	13,304	16,240	2,192
Residential real estate	10,239	10,825	2,582	7,669	8,191	4,112
Construction & land development	12,028	15,306	3,775	11,050	14,833	3,752
Consumer:						
Bankcard	0	0	0	0	0	0
Other consumer	0	0	0	152	152	152
<b>Total:</b>						
Commercial real estate:						
Owner-occupied	\$ 40,391	\$ 40,391	\$ 820	\$ 9,030	\$ 9,030	\$ 638
Nonowner-occupied	67,519	67,988	773	15,288	17,214	1,631
Other commercial	32,174	38,549	4,016	23,596	33,993	2,192
Residential real estate	39,071	40,326	2,582	19,678	20,384	4,112
Construction & land development	55,124	59,982	3,775	24,916	29,495	3,752
Consumer:						
Bankcard	0	0	0	0	0	0
Other consumer	51	51	0	152	152	152





**Table of Contents**

	<b>Impaired Loans</b>			
	<b>For the Three Months Ended</b>			
	<b>September 30, 2014</b>		<b>September 30, 2013</b>	
	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>With no related allowance recorded:</b>				
Commercial real estate:				
Owner-occupied	\$ 37,208	\$ 129	\$ 13,661	\$ 68
Nonowner-occupied	63,035	230	12,035	27
Other commercial	20,679	59	18,947	389
Residential real estate	32,864	46	9,605	30
Construction & land development	44,191	97	8,688	119
Consumer:				
Bankcard	0	0	0	0
Other consumer	55	0	152	0
<b>With an allowance recorded:</b>				
Commercial real estate:				
Owner-occupied	\$ 4,352	\$ 114	\$ 2,313	\$ 139
Nonowner-occupied	7,332	67	6,562	155
Other commercial	12,537	97	9,390	59
Residential real estate	7,716	8	5,773	105
Construction & land development	11,491	31	14,234	111
Consumer:				
Bankcard	0	0	0	0
Other consumer	76	0	0	0
<b>Total:</b>				
Commercial real estate:				
Owner-occupied	\$ 41,560	\$ 243	\$ 15,974	\$ 207
Nonowner-occupied	70,367	297	18,597	182
Other commercial	33,216	156	28,337	448
Residential real estate	40,580	54	15,378	135
Construction & land development	55,682	128	22,922	230
Consumer:				
Bankcard	0	0	0	0
Other consumer	131	0	152	0

	<b>Impaired Loans</b>			
	<b>For the Nine Months Ended</b>			
	<b>September 30, 2014</b>		<b>September 30, 2013</b>	
	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>With no related allowance recorded:</b>				
Commercial real estate:				
Owner-occupied	\$ 35,959	\$ 617	\$ 13,530	\$ 145
Nonowner-occupied	62,205	440	11,637	221
Other commercial	27,454	217	12,268	478
Residential real estate	30,484	195	8,530	197
Construction & land development	46,747	234	8,078	304
Consumer:				
Bankcard	0	0	0	0
Other consumer	45	0	152	0
<b>With an allowance recorded:</b>				
Commercial real estate:				
Owner-occupied	\$ 4,236	\$ 189	\$ 1,935	\$ 166
Nonowner-occupied	7,606	159	5,518	204
Other commercial	12,751	185	16,616	991

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

Residential real estate	8,548	101	5,505	186
Construction & land development	10,694	47	13,934	378
Consumer:				
Bankcard	0	0	0	0

**Table of Contents**

	<b>Impaired Loans</b>			
	<b>For the Nine Months Ended</b>			
	<b>September 30, 2014</b>		<b>September 30, 2013</b>	
	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
Other consumer	102	0	0	0
<b>Total:</b>				
Commercial real estate:				
Owner-occupied	\$ 40,195	\$ 806	\$ 15,465	\$ 311
Nonowner-occupied	69,811	599	17,155	425
Other commercial	40,205	402	28,884	1,469
Residential real estate	39,032	296	14,035	383
Construction & land development	57,441	281	22,012	682
Consumer:				
Bankcard	0	0	0	0
Other consumer	147	0	152	0

**6. ALLOWANCE FOR CREDIT LOSSES**

The allowance for loan losses is management's estimate of the probable credit losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance for loan losses and the appropriate provision for credit losses is based upon 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. Allocations are made for specific commercial loans based upon management's estimate of the borrowers' ability to repay and other factors impacting collectibility. Other commercial loans not specifically reviewed on an individual basis are evaluated based on historical loss percentages applied to loan pools that have been segregated by the type of risk. Allocations for loans other than commercial loans are made based upon historical loss experience adjusted for current environmental conditions. The allowance for credit losses includes estimated probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet fully manifested themselves in loss allocation factors. In addition, a portion of the allowance accounts for the inherent imprecision in the allowance for credit losses analysis.

For purposes of determining the general allowance, the loan portfolio is segregated by loan product type to recognize differing risk profiles among loan categories. It is further segregated by credit grade for risk-rated loan pools and delinquency for homogeneous loan pools. The outstanding principal balance within each pool is multiplied by historical loss data and certain qualitative factors to derive the general loss allocation per pool. Specific loss allocations are calculated for loans in excess of \$500 thousand in accordance with ASC topic 310. Risk characteristics of owner-occupied commercial real estate loans and other commercial loans are similar in that they are normally dependent upon the borrower's internal cash flow from operations to service debt. Nonowner-occupied commercial real estate loans differ in that cash flow to service debt is normally dependent on external income from third parties for use of the real estate such as rents, leases and room rates. Residential real estate loans are dependent upon individual borrowers who are affected by changes in general economic conditions, demand for housing and resulting residential real estate valuation. Construction and land development loans are impacted mainly by demand whether for new residential housing or for retail, industrial, office and other types of commercial construction within a given area. Consumer loan pool risk characteristics are influenced by general, regional and local economic conditions. During the first nine months of 2014, there were no material changes to the accounting policy or methodology related to the allowance for loan losses.

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. For commercial loans, when a loan or a portion of a

**Table of Contents**

loan is identified to contain a loss, a charge-off recommendation is directed to management to charge-off all or a portion of that loan. Generally, any unsecured commercial loan more than six months delinquent in payment of interest must be charged-off in full. If secured, the charge-off is generally made to reduce the loan balance to a level equal to the liquidation value of the collateral when payment of principal and interest is six months delinquent. Any commercial loan, secured or unsecured, on which a principal or interest payment has not been made within 90 days, is reviewed monthly for appropriate action.

For consumer loans, closed-end retail loans that are past due 120 cumulative days delinquent from the contractual due date and open-end loans 180 cumulative days delinquent from the contractual due date are charged-off. Any consumer loan on which a principal or interest payment has not been made within 90 days is reviewed monthly for appropriate action. For a one-to-four family open-end or closed-end residential real estate loan, home equity loan, or high-loan-to-value loan that has reached 180 or more days past due, management evaluates the collateral position and charge-offs any amount that exceeds the value of the collateral. Retail credits for which the borrower is in bankruptcy, all amounts deemed unrecoverable are charged-off within 60 days or before of the receipt of the notification. On retail credits effected by fraud, a loan is charged-off within 90 days of the discovery of the fraud. In the event of the borrower's death and if repayment within the required timeframe is uncertain, the loan is generally charged-off as soon as the amount of the loss is determined.

United maintains an allowance for loan losses and a reserve for lending-related commitments such as unfunded loan commitments and letters of credit. The reserve for lending-related commitments of \$1,477 and \$2,143 at September 30, 2014 and December 31, 2013, respectively, is separately classified on the balance sheet and is included in other liabilities. The combined allowance for loan losses and reserve for lending-related commitments are referred to as the allowance for credit losses.

A progression of the allowance for loan losses, by portfolio segment, for the periods indicated is summarized as follows.

**Allowance for Loan Losses****For the Three Months Ended September 30, 2014**

	Commercial Real Estate						Consumer	Allowance for Estimated Imprecision	Total
	Owner- occupied	Nonowner- occupied	Other Commercial	Residential Real Estate	Construction & Land Development				
<b>Allowance for Loan Losses:</b>									
Beginning balance	\$ 3,810	\$ 8,036	\$ 26,778	\$ 14,785	\$ 18,320	\$ 3,146	\$ 100	\$ 74,975	
Charge-offs	726	1,226	1,142	486	457	366	0	4,403	
Recoveries	113	16	132	76	16	48	0	401	
Provision	1,174	1,442	589	(532)	1,682	313	80	4,748	
Ending balance	\$ 4,371	\$ 8,268	\$ 26,357	\$ 13,843	\$ 19,561	\$ 3,141	\$ 180	\$ 75,721	

**Allowance for Loan Losses and Carrying Amount of Loans****For the Nine Months Ended September 30, 2014**

	Commercial Real Estate						Consumer	Allowance for Estimated Imprecision	Total
	Owner- occupied	Nonowner- occupied	Other Commercial	Residential Real Estate	Construction & Land Development				
<b>Allowance for Loan Losses:</b>									
Beginning balance	\$ 5,653	\$ 8,992	\$ 20,917	\$ 16,694	\$ 18,953	\$ 2,945	\$ 44	\$ 74,198	
Charge-offs	1,863	2,063	3,233	3,078	5,140	1,618	0	16,995	



**Table of Contents****Allowance for Loan Losses and Carrying Amount of Loans****For the Nine Months Ended September 30, 2014**

	Commercial Real Estate						Allowance for Estimated Imprecision	Total
	Owner- occupied	Nonowner- occupied	Other Commercial	Residential Real Estate	Construction & Land Development	Consumer		
Recoveries	1,611	250	249	340	140	300	0	2,890
Provision	(1,030)	1,089	8,424	(113)	5,608	1,514	136	15,628
Ending balance	\$ 4,371	\$ 8,268	\$ 26,357	\$ 13,843	\$ 19,561	\$ 3,141	\$ 180	\$ 75,721
Ending Balance: individually evaluated for impairment	\$ 820	\$ 773	\$ 4,016	\$ 2,582	\$ 3,775	\$ 0	\$ 0	\$ 11,966
Ending Balance: collectively evaluated for impairment	\$ 3,551	\$ 7,495	\$ 22,341	\$ 11,261	\$ 15,786	\$ 3,141	\$ 180	\$ 63,755
Ending Balance: loans acquired with deteriorated credit quality	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Financing receivables:</b>								
Ending balance	\$ 1,044,951	\$ 2,718,821	\$ 1,592,606	\$ 2,229,353	\$ 1,088,627	\$ 356,125	\$ 0	\$ 9,030,483
Ending Balance: individually evaluated for impairment	\$ 13,383	\$ 13,739	\$ 20,072	\$ 14,990	\$ 16,961	\$ 0	\$ 0	\$ 79,145
Ending Balance: collectively evaluated for impairment	\$ 1,005,661	\$ 2,648,094	\$ 1,561,323	\$ 2,193,341	\$ 1,023,381	\$ 356,065	\$ 0	\$ 8,787,865
Ending Balance: loans acquired with deteriorated credit quality	\$ 25,907	\$ 56,988	\$ 11,211	\$ 21,022	\$ 48,285	\$ 60	\$ 0	\$ 163,473

**Allowance for Loan Losses and Carrying Amount of Loans****For the Year Ended December 31, 2013**

(In thousands)	Commercial Real Estate						Allowance for Estimated Imprecision	Total
	Owner- occupied	Nonowner- occupied	Other Commercial	Residential Real Estate	Construction & Land Development	Consumer		
<b>Allowance for Loan Losses:</b>								
Beginning balance	\$ 3,877	\$ 12,876	\$ 20,511	\$ 14,895	\$ 18,858	\$ 2,620	\$ 264	\$ 73,901
Charge-offs	5,344	1,164	7,699	4,111	896	1,792	0	21,006
Recoveries	150	56	641	698	73	418	0	2,036
Provision	6,970	(2,776)	7,464	5,212	918	1,699	(220)	19,267
Ending balance	\$ 5,653	\$ 8,992	\$ 20,917	\$ 16,694	\$ 18,953	\$ 2,945	\$ 44	\$ 74,198
	\$ 638	\$ 1,631	\$ 2,192	\$ 4,112	\$ 3,752	\$ 152	\$ 0	\$ 12,477

Ending Balance: individually  
evaluated for impairment



**Table of Contents****Allowance for Loan Losses and Carrying Amount of Loans****For the Year Ended December 31, 2013**

(In thousands)	Commercial Real Estate				Construction & Land Development	Consumer	Allowance for Estimated Imprecision	Total
	Owner- occupied	Nonowner- occupied	Other Commercial	Residential Real Estate				
Ending Balance: collectively evaluated for impairment	\$ 5,015	\$ 7,361	\$ 18,725	\$ 12,582	\$ 15,201	\$ 2,793	\$ 44	\$ 61,721
Ending Balance: loans acquired with deteriorated credit quality	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Financing receivables:</b>								
Ending balance	\$ 654,963	\$ 1,917,785	\$ 1,338,355	\$ 1,821,378	\$ 670,364	\$ 310,754	\$ 0	\$ 6,713,599
Ending Balance: individually evaluated for impairment	\$ 7,157	\$ 13,913	\$ 22,327	\$ 16,160	\$ 21,593	\$ 152	\$ 0	\$ 81,302
Ending Balance: collectively evaluated for impairment	\$ 646,548	\$ 1,894,421	\$ 1,314,543	\$ 1,802,686	\$ 632,407	\$ 310,593	\$ 0	\$ 6,601,198
Ending Balance: loans acquired with deteriorated credit quality	\$ 1,258	\$ 9,451	\$ 1,485	\$ 2,532	\$ 16,364	\$ 9	\$ 0	\$ 31,099

**7. INTANGIBLE ASSETS**

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

	As of September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortized intangible assets:</b>			
Core deposit intangible assets	\$ 60,577	(\$ 38,263)	\$ 22,314
Goodwill not subject to amortization			\$ 712,065
	As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortized intangible assets:</b>			
Core deposit intangible assets	\$ 43,434	(\$ 35,296)	\$ 8,138
Goodwill not subject to amortization			\$ 375,547

United incurred amortization expense of \$1,054 and \$2,967 for the quarter and nine months ended September 30, 2014, respectively, and \$479 and \$1,519 for the quarter and nine months ended September 30, 2013, respectively, related to intangible assets.

**Table of Contents**

The following table sets forth the anticipated amortization expense for intangible assets for the years subsequent to 2013:

<b>Year</b>	<b>Amount</b>
2014	\$ 4,133
2015	3,383
2016	2,943
2017	2,730
2018 and thereafter	12,092

**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 \$234,000. 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, 2014, federal funds purchased were \$30,120 while securities sold under agreements to repurchase (REPOs) were \$396,818. Included in the \$396,818 of total REPOs were wholesale REPOs of \$52,713, including purchase accounting amounts, assumed in the Virginia Commerce merger. These wholesale REPOs are scheduled to mature in July of 2018. The securities sold under agreements to repurchase were accounted for as collateralized financial transactions. They were recorded at the amounts at which the securities were acquired or sold plus accrued interest.

United has a \$10,000 line of credit with an unrelated financial institution to provide for general liquidity needs. The line is an unsecured, revolving line of credit. The line will be renewable on a 360 day basis and will carry an indexed, floating-rate of interest. The line requires compliance with various financial and nonfinancial covenants. At September 30, 2014, United had no outstanding balance under this line of credit.

**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, 2014, United had an unused borrowing amount of approximately \$2,275,693 available subject to delivery of collateral after certain trigger points. Advances may be called by the FHLB or redeemed by United based on predefined factors and penalties.

At September 30, 2014, \$930,679 of FHLB advances with a weighted-average interest rate of 0.45% are scheduled to mature within the next five years. Overnight funds of \$100,000 are included in the \$930,679 above at September 30, 2014. The scheduled maturities of these FHLB borrowings are as follows:

<b>Year</b>	<b>Amount</b>
2014	\$ 525,284
2015	354,397
2016	654
2017	344
2018 and thereafter	50,000
<b>Total</b>	<b>\$ 930,679</b>

At September 30, 2014, United had a total of fifteen 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



---

**Table of Contents**

assets of the trusts and United's payment under the Debentures is the sole source of revenue for the trusts. At September 30, 2014, and December 31, 2013, the outstanding balance of the Debentures was \$249,863 and \$198,628, respectively, and was 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. United has not deferred any payment as of September 30, 2014.

As part of the acquisition of Virginia Commerce on January 31, 2014, United assumed all the obligations of Virginia Commerce and its subsidiaries. Virginia Commerce has a total of three statutory business trusts that were formed for the purpose of issuing or participating in Capital Securities with the proceeds invested in Debentures of Virginia Commerce. At merger, the outstanding balance of Virginia Commerce's Debentures was \$50,635, including purchase accounting adjustments.

The Trust Preferred Securities currently qualify as Tier 1 capital of United for regulatory purposes.

**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 interest rate swap agreements. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements.

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily, and historically do not, represent future cash requirements. The amount of collateral obtained, if deemed necessary upon the extension of credit, is based on management's credit evaluation of the counterparty. United had approximately \$2,641,369 and \$1,895,682 of loan commitments outstanding as of September 30, 2014 and December 31, 2013, respectively, substantially all 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. As of September 30, 2014 and December 31, 2013, United had no outstanding commercial letters of credit. 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

## **Table of Contents**

party. United has issued standby letters of credit of \$172,008 and \$114,664 as of September 30, 2014 and December 31, 2013, respectively. In accordance with the Contingencies Topic of the FASB Accounting Standards Codification, United has determined that substantially all of its letters of credit are renewed on an annual basis and the fees associated with these letters of credit are immaterial.

United and its subsidiaries are currently involved in various legal proceedings in the normal course of business. 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.

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

United uses derivative instruments to help manage 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 the Derivatives and Hedging topic of the FASB Accounting Standards Codification. The Derivatives and Hedging topic require all derivative instruments to be carried at fair value on the balance sheet. United has designated certain 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 hedge relationship.

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 a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. As of September 30, 2014, United has only fair value 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.

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.

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

**Table of Contents**

The following table sets forth certain information regarding the interest rate derivatives portfolio used for interest-rate risk management purposes and designated as accounting hedges under the Derivatives and Hedging topic at September 30, 2014.

**Derivative Classifications and Hedging Relationships**

September 30, 2014

	Notional Amount	Average Pay Rate
<b>Fair Value Hedges:</b>		
Pay Fixed Swaps (Hedging Commercial Loans)	\$ 40,794	5.07%
<b>Total Derivatives Used in Fair Value Hedges</b>	<b>\$ 40,794</b>	
<b>Total Derivatives Used for Interest Rate Risk Management and Designated as Hedges</b>	<b>\$ 40,794</b>	

The following tables summarize the fair value of United's derivative financial instruments.

	Asset Derivatives			
	September 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 646	Other assets	\$ 2,179
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 646</b>		<b>\$ 2,179</b>
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 618	Other assets	\$ 1,045
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 618</b>		<b>\$ 1,045</b>
<b>Total asset derivatives</b>		<b>\$ 1,264</b>		<b>\$ 3,224</b>

	Liability Derivatives			
	September 30, 2014		December 31, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>				
Interest rate contracts	Other liabilities	\$ 45	Other liabilities	\$ 149
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 45</b>		<b>\$ 149</b>
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Other liabilities	\$ 618	Other liabilities	\$ 1,045

<b>Total derivatives not designated as hedging instruments</b>	\$ 618	\$ 1,045
<b>Total liability derivatives</b>	\$ 663	\$ 1,194

Derivative contracts involve the risk of dealing with both bank customers and institutional derivative counterparties

**Table of Contents**

and their ability to meet contractual terms. Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. United's exposure is limited to the replacement value of the contracts rather than the notional amount of the contract. The Company's agreements generally contain provisions that limit the unsecured exposure up to an agreed upon threshold. Additionally, the Company attempts to minimize credit risk through certain approval processes established by management.

The effect of United's derivative financial instruments on its unaudited Consolidated Statements of Income for the three and nine months ended September 30, 2014 and 2013 are presented as follows:

	Income Statement Location	Three Months Ended	
		September 30, 2014	September 30, 2013
<b>Derivatives in fair value hedging relationships</b>			
Interest rate contracts	Interest income/ (expense)	\$ (271)	\$ (157)
<b>Total derivatives in fair value hedging relationships</b>		<b>\$ (271)</b>	<b>\$ (157)</b>
<b>Derivatives not designated as hedging instruments</b>			
Interest rate contracts <sup>(1)</sup>	Other income	\$ 154	\$ 218
Interest rate contracts <sup>(2)</sup>	Other expense	\$ (154)	\$ (218)
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 0</b>	<b>\$ 0</b>
Total derivatives		\$ (271)	\$ (157)

	Income Statement Location	Nine Months Ended	
		September 30, 2014	September 30, 2013
<b>Derivatives in fair value hedging relationships</b>			
Interest rate contracts	Interest income/ (expense)	\$ (795)	\$ (401)
<b>Total derivatives in fair value hedging relationships</b>		<b>\$ (795)</b>	<b>\$ (401)</b>
<b>Derivatives not designated as hedging instruments</b>			
Interest rate contracts <sup>(1)</sup>	Other income	\$ 427	\$ 1,181
Interest rate contracts <sup>(2)</sup>	Other expense	\$ (427)	\$ (1,181)
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 0</b>	<b>\$ 0</b>
Total derivatives		\$ (795)	\$ (401)

(1) Represents net gains from derivative assets not designated as hedging instruments.

(2) Represents net losses from derivative liabilities not designated as hedging instruments.

**12. FAIR VALUE MEASUREMENTS**



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

United determines the fair values of its financial instruments based on the fair value hierarchy established by ASC topic 820, which also clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

**Table of Contents**

The Fair Value Measurements and Disclosures topic specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect United's market assumptions.

The three levels of the fair value hierarchy, based on these two types of inputs, are as follows:

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

When determining the fair value measurements for assets and liabilities, United looks to active and observable markets to price identical assets or liabilities whenever possible and classifies such items in Level 1. When identical assets and liabilities are not traded in active markets, United looks to market observable data for similar assets and liabilities and classifies such items as Level 2. Nevertheless, certain assets and liabilities are not actively traded in observable markets and United must use alternative valuation techniques using unobservable inputs to determine a fair value and classifies such items as Level 3. For assets and liabilities that are not actively traded, the fair value measurement is based primarily upon estimates that require significant judgment. Therefore, the results may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there are inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement.

In accordance with ASC topic 820, the following describes the valuation techniques used by United to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

**Securities available for sale:** Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Using a market approach valuation methodology, third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2). Management internally reviews the fair values provided by third party vendors on a monthly basis. Management's review consists of comparing fair values assigned by third party vendors to trades and offerings observed by management. The review requires some degree of judgment as to the number or percentage of securities to review on the part of management which could fluctuate based on results of past reviews and in comparison to current expectations. As part of management's review, any items that exceed the scope of expected values are further investigated. Additionally, to assess the reliability of the information received from third party vendors, management obtains documentation from third party vendors related to the sources, methodologies, and inputs utilized in valuing securities classified as Level 2. Management analyzes this information to ensure the underlying assumptions appear reasonable. Management also obtains an independent service auditor's report from third party vendors to provide reasonable assurance that appropriate controls are in place over the valuation process. Upon completing its review of the pricing from third party vendors at September 30, 2014, management determined that the prices provided by its third party pricing source were reasonable and in line with management's expectations for the market values of these

**Table of Contents**

securities. Therefore, prices obtained from third party vendors that did not reflect forced liquidation or distressed sales were not adjusted by management at September 30, 2014. Management utilizes a number of factors to determine if a market is inactive, all of which may require a significant level of judgment. Factors that management considers include: a significant widening of the bid-ask spread, a considerable decline in the volume and level of trading activity in the instrument, a significant variance in prices among market participants, and a significant reduction in the level of observable inputs. Any securities available for sale not valued based upon quoted market prices or third party pricing models that consider observable market data are considered Level 3. Currently, United considers its valuation of available-for-sale Trup Cdos as Level 3. The Fair Value Measurements and Disclosures topic assumes that fair values of financial assets are determined in an orderly transaction and not a forced liquidation or distressed sale at the measurement date. Based on financial market conditions, United feels that the fair values obtained from its third party vendor reflect forced liquidation or distressed sales for these Trup Cdos due to decreased volume and trading activity. Additionally, management held discussions with institutional traders to identify trends in the number and type of transactions related to the Trup Cdos sector. Based upon management's review of the market conditions for Trup Cdos, it was determined that an income approach valuation technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs is more representative of fair value than the valuation technique used by United's third party vendor. The present value technique discounts expected future cash flows of a security to arrive at a present value. Management considers the following items when calculating the appropriate discount rate: the implied rate of return when the market was last active, changes in the implied rate of return as markets moved from very active to inactive, recent changes in credit ratings, and recent activity showing that the market has built in increased liquidity and credit premiums. Management's internal credit review of each security was also factored in to determine the appropriate discount rate. The credit review considered each security's collateral, subordination, excess spread, priority of claims, principal and interest. Discount margins used in the valuation at September 30, 2014 ranged from LIBOR plus 3.50% to LIBOR plus 9.75%. Management completed a sensitivity analysis on the fair value of its TRUP CDOs. Given a comprehensive 200 basis point increase in the discount rates, the total fair value of these securities would decline by approximately 19%, or \$7.5 million.

**Derivatives:** United utilizes interest rate swaps to hedge exposure to interest rate risk and variability of cash flows associated to changes in the underlying interest rate of the hedged item. These hedging interest rate swaps are classified as either a fair value hedge or a cash flow hedge. United's derivative portfolio also includes derivative financial instruments not included in hedge relationships. These derivatives consist of interest rate swaps used for interest rate management purposes and derivatives executed with commercial banking customers to facilitate their interest rate management strategies. United utilizes third-party vendors for derivative valuation purposes. These vendors determine the appropriate fair value based on a net present value calculation of the cash flows related to the interest rate swaps using primarily observable market inputs such as interest rate yield curves (Level 2). Valuation adjustments to derivative fair values for liquidity and credit risk are also taken into consideration, as well as the likelihood of default by United and derivative counterparties, the net counterparty exposure and the remaining maturities of the positions. Values obtained from third party vendors are typically not adjusted by management. Management internally reviews the derivative values provided by third party vendors on a quarterly basis. All derivative values are tested for reasonableness by management utilizing a net present value calculation.

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

**Table of Contents**

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. Unrealized gains and losses due to changes in the fair value of other derivative financial instruments not in hedge relationship are included in noninterest income and noninterest expense, respectively.

The following tables present the balances of financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013, segregated by the level of the valuation inputs within the fair value hierarchy.

Description	Fair Value at September 30, 2014 Using			
	Balance as of September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Available for sale debt securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 93,998	\$ 0	\$ 93,998	\$ 0
State and political subdivisions	135,841	0	135,841	0
Residential mortgage-backed securities				
Agency	541,632	0	541,632	0
Non-agency	13,601	0	13,601	0
Asset-backed securities	8,031	0	8,031	0
Commercial mortgage-backed securities				
Agency	309,217	0	309,217	0
Trust preferred collateralized debt obligations	38,819	0	0	38,819
Single issue trust preferred securities	12,210	0	12,210	0
Other corporate securities	5,159	0	5,159	0
<b>Total available for sale debt securities</b>	<b>1,158,508</b>	<b>0</b>	<b>1,119,689</b>	<b>38,819</b>
Available for sale equity securities:				
Financial services industry	2,329	703	1,626	0
Equity mutual funds (1)	558	558	0	0
Other equity securities	1,164	1,164	0	0
<b>Total available for sale equity securities</b>	<b>4,051</b>	<b>2,425</b>	<b>1,626</b>	<b>0</b>
<b>Total available for sale securities</b>	<b>1,162,559</b>	<b>2,425</b>	<b>1,121,315</b>	<b>38,819</b>
Derivative financial assets:				
Interest rate contracts	1,264	0	1,264	0
<b>Liabilities</b>				
Derivative financial liabilities:				
Interest rate contracts	663	0	663	0

- (1) The equity mutual funds are within a rabbi trust for the payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries.

**Table of Contents**

Description	Fair Value at December 31, 2013 Using			
	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Available for sale debt securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 171,754	\$ 0	\$ 171,754	\$ 0
State and political subdivisions	62,709	0	62,709	0
Residential mortgage-backed securities				
Agency	216,464	0	216,464	0
Non-agency	16,532	0	16,532	0
Asset-backed securities	9,227	0	9,227	0
Commercial mortgage-backed securities				
Agency	233,432	0	233,432	0
Trust preferred collateralized debt obligations	43,449	0	0	43,449
Single issue trust preferred securities	12,632	502	12,130	0
Other corporate securities	5,215	0	5,215	0
<b>Total available for sale debt securities</b>	<b>771,414</b>	<b>502</b>	<b>727,463</b>	<b>43,449</b>
Available for sale equity securities:				
Financial services industry	2,292	716	1,576	0
Equity mutual funds (1)	434	434	0	0
Other equity securities	1,144	1,144	0	0
<b>Total available for sale equity securities</b>	<b>3,870</b>	<b>2,294</b>	<b>1,576</b>	<b>0</b>
<b>Total available for sale securities</b>	<b>775,284</b>	<b>2,796</b>	<b>729,039</b>	<b>43,449</b>
Derivative financial assets:				
Interest rate contracts	3,224	0	3,224	0
<b>Liabilities</b>				
Derivative financial liabilities:				
Interest rate contracts	1,194	0	1,194	0

(1) The equity mutual funds are within a rabbi trust for the payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries.

The following table presents additional information about financial assets and liabilities measured at fair value at September 30, 2014 and December 31, 2013 on a recurring basis and for which United has utilized Level 3 inputs to determine fair value:

	Available-for-sale Securities	
	September 30, 2014	December 31, 2013
Balance, beginning of period	\$ 43,449	\$ 40,613
Total gains or losses (realized/unrealized):		
Trust preferred collateralized debt obligations		

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

Included in earnings (or changes in net assets)	(4,539)	(6,456)
Included in other comprehensive income	15,400	14,520

**Table of Contents**

	Available-for-sale Securities	
	Trust preferred collateralized debt obligations	
	September 30, 2014	December 31, 2013
Purchases, issuances, and settlements	(15,491)	(5,228)
Transfers in and/or out of Level 3	0	0
<b>Balance, ending of period</b>	<b>\$ 38,819</b>	<b>\$ 43,449</b>

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

	0	0
--	---	---

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

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

**Loans held for sale:** Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, United records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the quarter ended September 30, 2014. Gains and losses on sale of loans are recorded within income from mortgage banking on the Consolidated Statements of Income.

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

**OREO:** OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the balance sheet at the lower of the investment in the assets or the fair value of the assets less estimated selling costs. Fair value is determined by one of two market approach methods depending on whether the property has been vacated and an appraisal can be conducted. If the property has yet to be vacated and thus an appraisal cannot be performed, a Brokers Price Opinion (i.e. BPO), is obtained. A BPO represents a best estimate valuation performed by a realtor

**Table of Contents**

based on knowledge of current property values and a visual examination of the exterior condition of the property. Once the property is subsequently vacated, a formal appraisal is obtained and the recorded asset value appropriately adjusted. On the other hand, if the OREO property has been vacated and an appraisal can be conducted, the fair value of the property is determined based upon the appraisal using a market approach. An authorized independent appraiser conducts appraisals for United. Appraisals for property other than ongoing construction are based on consideration of comparable property sales (Level 2). In contrast, valuation of ongoing construction assets requires some degree of professional judgment. In conducting an appraisal for ongoing construction property, the appraiser develops two appraised amounts: an as is appraised value and a completed value. Based on professional judgment and their knowledge of the particular situation, management determines the appropriate fair value to be utilized for such property (Level 3). As a matter of policy, valuations are reviewed at least annually and appraisals are generally updated on a bi-annual basis with values lowered as necessary.

**Intangible Assets:** For United, intangible assets consist of goodwill and core deposit intangibles. Goodwill is tested for impairment at least annually or sooner if indicators of impairment exist. Goodwill impairment would be defined as the difference between the recorded value of goodwill (i.e. book value) and the implied fair value of goodwill. In determining the implied fair value of goodwill for purposes of evaluating goodwill impairment, United determines the fair value of the reporting unit using a market approach and compares the fair value to its carrying value. If the carrying value exceeds the fair value, a step two test is performed whereby the implied fair value is computed by deducting the fair value of all tangible and intangible net assets from the fair value of the reporting unit. Core deposit intangibles relate to the estimated value of the deposit base of acquired institutions. Management reviews core deposit intangible assets on an annual basis, or sooner if indicators of impairment exist, and evaluates changes in facts and circumstances that may indicate impairment in the carrying value. Other than those intangible assets recorded in the acquisition of Virginia Commerce, no fair value measurement of intangible assets was made during the first nine months of 2014.

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

Description	Fair Value Measurements at September 30, 2014 Using					YTD Losses
	Balance as of September 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets						
Impaired Loans	\$ 48,132	\$ 0	\$ 18,587	\$ 29,545		\$ 1,935
OREO	42,432	0	42,273	159		2,966

Description	Fair Value Measurements at December 31, 2013 Using					YTD Losses
	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets						
Impaired Loans	\$ 45,883	\$ 0	\$ 13,081	\$ 32,802		\$ 1,886
OREO	38,182	0	38,107	75		2,548





**Table of Contents**

The following methods and assumptions were used by United in estimating its fair value disclosures for other financial instruments:

**Cash and Cash Equivalents:** The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair values.

**Securities held to maturity and other securities:** The estimated fair values of held to maturity are based on quoted market prices, where available. If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data. Any securities held to maturity not valued based upon the methods above are valued based on a discounted cash flow methodology using appropriately adjusted discount rates reflecting nonperformance and liquidity risks. Other securities consist mainly of shares of Federal Home Loan Bank and Federal Reserve Bank stock that do not have readily determinable fair values and are carried at cost.

**Loans:** The fair values of certain mortgage loans (e.g., one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values of other loans (e.g., commercial real estate and rental property mortgage loans, commercial and industrial loans, financial institution loans and agricultural loans) are estimated using discounted cash flow analyses, using market interest rates currently being offered for loans with similar terms to borrowers of similar creditworthiness, which include adjustments for liquidity concerns.

**Deposits:** The fair values of demand deposits (e.g., interest and noninterest checking, regular savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values of fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

**Short-term Borrowings:** The carrying amounts of federal funds purchased, borrowings under repurchase agreements and other short-term borrowings approximate their fair values.

**Long-term Borrowings:** The fair values of United's Federal Home Loan Bank borrowings and trust preferred securities are estimated using discounted cash flow analyses, based on United's current incremental borrowing rates for similar types of borrowing arrangements.

The estimated fair values of United's financial instruments are summarized below:

	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2014</b>					
Cash and cash equivalents	\$ 591,270	\$ 591,270	\$ 0	\$ 591,270	\$ 0
Securities available for sale	1,162,559	1,162,559	2,425	1,121,315	38,819
Securities held to maturity	39,969	38,381	0	36,361	2,020
Other securities	104,714	99,478	0	0	99,478
Loans held for sale	5,773	5,773	0	5,773	0

**Table of Contents**

	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loans	8,940,182	8,988,058	0	0	8,988,058
Derivative financial assets	1,264	1,264	0	1,264	0
Deposits	8,753,257	8,754,110	0	8,754,110	0
Short-term borrowings	474,225	474,225	0	474,225	0
Long-term borrowings	1,133,255	1,115,046	0	1,115,046	0
Derivative financial liabilities	663	663	0	663	0
<b>December 31, 2013</b>					
Cash and cash equivalents	\$ 416,617	\$ 416,617	\$ 0	\$ 416,617	\$ 0
Securities available for sale	775,284	775,284	2,796	729,039	43,449
Securities held to maturity	40,965	38,293	0	35,773	2,520
Other securities	73,093	70,072	0	0	70,072
Loans held for sale	4,236	4,236	0	4,236	0
Loans	6,630,385	6,657,376	0	0	6,657,376
Derivative financial assets	3,224	3,224	0	3,224	0
Deposits	6,621,571	6,641,070	0	6,641,070	0
Short-term borrowings	430,754	430,754	0	430,754	0
Long-term borrowings	575,697	553,796	0	553,796	0
Derivative financial liabilities	1,194	1,194	0	1,194	0

**13. STOCK BASED COMPENSATION**

On May 16, 2011, United's shareholders approved the 2011 Long-Term Incentive Plan (2011 LTI Plan). The 2011 LTI Plan became effective as of July 1, 2011. An award granted under the 2011 LTI Plan may consist of any non-qualified stock options or incentive stock options, stock appreciation rights, restricted stock, or restricted stock units. These awards all relate to the common stock of United. The maximum number of shares of United common stock which may be issued under the 2011 LTI Plan is 1,500,000. Any and all shares may be issued in respect of any of the types of awards, provided that (1) the aggregate number of shares that may be issued in respect of restricted stock awards, and restricted stock units awards which are settled in shares is 350,000, and (2) the aggregate number of shares that may be issued pursuant to stock options is 1,150,000. The shares to be offered under the 2011 LTI Plan may be authorized and unissued shares or treasury shares. With respect to awards that are intended to satisfy the requirements for performance-based compensation under Code Section 162(m), the maximum number of options and stock appreciation rights, in the aggregate, which may be awarded pursuant to the 2011 LTI Plan to any individual participant during any calendar year is 100,000, and the maximum number of shares of restricted stock and/or shares subject to a restricted stock units award that may be granted pursuant to the 2011 LTI Plan to any individual participant during any calendar year is 50,000 shares. A participant may be any key employee of United or its affiliates or a non-employee member of United's Board of Directors. Subject to certain change in control provisions, stock options, SARs, restricted stock and restricted stock units will vest in 25% increments over the first four anniversaries of the awards unless the Committee specifies otherwise in the award agreement. No award will vest sooner than 1/3 per year over the first three anniversaries of the award. A Form S-8 was filed on September 2, 2011 with the Securities and Exchange Commission to register all the shares which were available for the 2011 LTI Plan. During the first nine months of 2014, a total of 204,800 non-qualified stock options and 66,949 shares of restricted stock were granted under the 2011 LTI Plan.

**Table of Contents**

Compensation expense of \$433 and \$1,593 related to the nonvested awards under the 2011 LTI Plan and the 2006 Stock Option Plan was incurred for the third quarter and first nine months of 2014, respectively, as compared to the compensation expense of \$466 and \$1,320 related to the nonvested awards under the 2006 Stock Option Plan incurred for the third quarter and first nine months of 2013, respectively. Compensation expense was included in employee compensation in the unaudited Consolidated Statements of Income.

*Stock Options*

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

A summary of activity under United's stock option plans as of September 30, 2014, and the changes during the first nine months of 2014 are presented below:

	Shares	Nine Months Ended September 30, 2014		
		Aggregate Intrinsic Value	Remaining Contractual Term (Yrs.)	Weighted Average Exercise Price
Outstanding at January 1, 2014	1,447,997			\$ 29.33
Assumed in Virginia Commerce merger	440,813			19.55
Granted	204,800			28.89
Exercised	(368,856)			19.50
Forfeited or expired	(69,529)			32.30
Outstanding at September 30, 2014	1,655,225	\$ 5,745	5.1	\$ 28.74
Exercisable at September 30, 2014	1,254,236	\$ 4,629	4.0	\$ 28.92

The following table summarizes the status of United's nonvested stock option awards during the first nine months of 2014:

	Shares	Weighted-Average Grant Date Fair Value Per Share	
Nonvested at January 1, 2014	589,197	\$	7.01
Granted	204,800		6.42
Vested	(383,475)		7.46
Forfeited or expired	(9,533)		6.48
Nonvested at September 30, 2014	400,989	\$	6.29

During the nine months ended September 30, 2014 and 2013, 368,856 and 70,570 shares, respectively, were issued in connection with stock option exercises. Of the 368,856 shares issued in connection with stock option exercises, 342,382 were issued from available treasury stock while 26,474 shares were issued from authorized and unissued stock for the nine months ended September 30, 2014. All shares issued in connection with stock options exercises for the nine months ended September 30, 2013 were issued from available treasury stock. The total intrinsic value of options exercised under the Plans during the nine months ended September 30, 2014 and 2013 was \$3,977 and \$363, respectively.

**Table of Contents***Restricted Stock*

Under the 2011 LTI Plan, United may award restricted common shares to key employees and non-employee directors. Restricted shares granted to participants have a four-year time-based vesting period. Recipients of restricted shares do not pay any consideration to United for the shares, have the right to vote all shares subject to such grant and receive all dividends with respect to such shares, whether or not the shares have vested. Presently, these nonvested participating securities have an immaterial impact on diluted earnings per share.

The following summarizes the changes to United's restricted common shares for the period ended September 30, 2014:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at January 1, 2014	85,497	\$ 27.53
Assumed in Virginia Commerce merger	34,538	29.89
Granted	66,949	28.89
Vested	(57,204)	28.83
Forfeited	(2,338)	28.11
Outstanding at September 30, 2014	127,442	\$ 28.29

**14. EMPLOYEE BENEFIT PLANS**

United has a defined benefit retirement plan covering some of its 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. 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) was amended to change the participation rules. The decision to change the participation rules for the Plan followed current industry trends, as many large and medium size companies had 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, including those retained in the Virginia Commerce acquisition, will be eligible to participate in United's Savings and Stock Investment 401(k) plan. This change had no impact on current employees hired prior to October 1, 2007 as they will continue to participate in the Plan, with no change in benefit provisions, and will continue to be eligible to participate in United's Savings and Stock Investment 401(k) plan.

Included in accumulated other comprehensive income at December 31, 2013 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service costs of \$2 (\$1 net of tax) and unrecognized actuarial losses of \$31,151 (\$20,248 net of tax). The amortization of these items expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2014 is \$1 (\$1 net of tax), and \$4,821 (\$3,134 net of tax), respectively.

Net periodic pension cost for the three and nine months ended September 30, 2014 and 2013 included the following components:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Service cost	\$ 579	\$ 777	\$ 1,720	\$ 2,304
Interest cost	1,361	1,235	4,039	3,665

**Table of Contents**

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Expected return on plan assets	(2,293)	(2,097)	(6,806)	(6,223)
Amortization of transition asset	0	0	0	0
Recognized net actuarial loss	491	1,184	1,458	3,515
Amortization of prior service cost	1	1	1	1
<b>Net periodic pension (benefit) cost</b>	<b>\$ 139</b>	<b>\$ 1,100</b>	<b>\$ 412</b>	<b>\$ 3,262</b>

**Weighted-Average Assumptions:**

Discount rate	5.20%	4.40%	5.20%	4.40%
Expected return on assets	7.50%	8.00%	7.50%	8.00%
Rate of compensation increase (prior to age 45)	3.50%	3.75%	3.50%	3.75%
Rate of compensation increase	3.00%	2.75%	3.00%	2.75%

**15. INCOME TAXES**

United records a liability for uncertain income tax positions based on a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken on a tax return, in order for those tax positions to be recognized in the financial statements.

As of September 30, 2014, United has provided a liability for \$3,449 of unrecognized tax benefits related to various federal and state income tax matters. The entire amount of unrecognized tax benefits, if recognized, would impact United's effective tax rate. Over the next 12 months, the statute of limitations will close on certain income tax periods. However, at this time, United cannot reasonably estimate the amount of tax benefits it may recognize over the next 12 months.

United is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2011, 2012 and 2013 and State Taxing authorities for the years ended December 31, 2010 through 2013.

As of September 30, 2014 and 2013, the total amount of accrued interest related to uncertain tax positions was \$540 and \$427, respectively. United accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

**16. COMPREHENSIVE INCOME**

The components of total comprehensive income for the three and nine months ended September 30, 2014 and 2013 are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
<b>Net Income</b>	<b>\$ 33,260</b>	<b>\$ 22,170</b>	<b>\$ 96,631</b>	<b>\$ 65,968</b>
Available for sale ( AFS ) securities:				
AFS securities with OTTI charges during the period	(4,714)	0	(5,774)	(1,172)
Related income tax effect	1,650	0	2,021	410
Less : OTTI charges recognized in net income	4,714	0	5,774	971
Related income tax benefit	(1,650)	0	(2,021)	(340)
Reclassification of previous noncredit OTTI to credit OTTI	4,153	0	6,259	1,458
Related income tax benefit	(1,453)	0	(2,190)	(510)

**Table of Contents**

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	2014	2013
Net unrealized (losses) gains on AFS securities with OTTI	2,700	0	4,069	817
AFS securities all other:				
Change in net unrealized gain on AFS securities arising during the period	(339)	4,680	24,242	1,080
Related income tax effect	119	(1,638)	(8,485)	(378)
Net reclassification adjustment for (gains) losses included in net income	(1,300)	(101)	(2,125)	(476)
Related income tax expense (benefit)	455	36	744	167
	(1,065)	2,977	14,376	393
<b>Net effect of AFS securities on other comprehensive income</b>	<b>1,635</b>	<b>2,977</b>	<b>18,445</b>	<b>1,210</b>
Held to maturity ( HTM ) securities:				
Accretion on the unrealized loss for securities transferred from				
AFS to the HTM investment portfolio prior to call or maturity	2	2	6	6
Related income tax expense	(0)	0	(2)	(2)
<b>Net effect of HTM securities on other comprehensive income</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>4</b>
Pension plan:				
Amortization of prior service cost	1	1	1	1
Related income tax benefit	0	0	0	0
Recognized net actuarial loss	491	1,184	1,458	3,515
Related income tax benefit	(183)	(445)	(531)	(1,293)
<b>Net effect of change in pension plan asset on other comprehensive income</b>	<b>309</b>	<b>740</b>	<b>928</b>	<b>2,223</b>
<b>Total change in other comprehensive income</b>	<b>1,946</b>	<b>3,719</b>	<b>19,377</b>	<b>3,437</b>
<b>Total Comprehensive Income</b>	<b>\$ 35,206</b>	<b>\$ 25,889</b>	<b>\$ 116,008</b>	<b>\$ 69,405</b>

The components of accumulated other comprehensive income for the nine months ended September 30, 2014 are as follows:

**Changes in Accumulated Other Comprehensive Income (AOCI) by Component <sup>(a)</sup>****For the Nine Months Ended September 30, 2014**

(Dollars in thousands)	Unrealized Gains/Losses on AFS Securities	Accretion on the unrealized loss for securities transferred from AFS to the HTM	Defined Benefit Pension Items	Total
Balance at January 1, 2014	(\$ 23,235)	(\$ 67)	(\$ 19,745)	(\$ 43,047)
Other comprehensive income before reclassification	15,757	4	0	15,761
Amounts reclassified from accumulated other comprehensive income	2,688	0	928	3,616
Net current-period other comprehensive income, net of tax	18,445	4	928	19,377
Balance at September 30, 2014	(\$ 4,790)	(\$ 63)	(\$ 18,817)	(\$ 23,670)

(a) All amounts are net-of-tax.



**Table of Contents****Reclassifications out of Accumulated Other Comprehensive Income (AOCI)****For the Nine Months Ended September 30, 2014***(Dollars in thousands)*

<b>Details about AOCI Components</b>	<b>Amount Reclassified from AOCI</b>	<b>Affected Line Item in the Statement Where Net Income is Presented</b>
<b>Available for sale ( AFS ) securities:</b>		
Reclassification of previous noncredit OTTI to credit OTTI	\$ 6,259	Total other-than-temporary impairment losses
Net reclassification adjustment for losses (gains) included in net income	(2,125)	Net gains on sales/calls of investment securities
	4,134	Total before tax
Related income tax effect	(1,446)	Tax expense
	2,688	Net of tax
<b>Pension plan:</b>		
Amortization of transition asset	1(a)	
Recognized net actuarial loss	1,458(a)	
	1,459	Total before tax
Related income tax effect	(531)	Tax expense
	928	Net of tax
<b>Total reclassifications for the period</b>	<b>\$ 3,616</b>	

(a) This AOCI component is included in the computation of net periodic pension cost (see Note 14, Employee Benefit Plans)

**17. EARNINGS PER SHARE**

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

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Distributed earnings allocated to common stock	\$ 22,101	\$ 15,597	\$ 66,261	\$ 46,760
Undistributed earnings allocated to common stock	11,102	6,538	30,194	19,104
Net earnings allocated to common shareholders	\$ 33,203	\$ 22,135	\$ 96,455	\$ 65,864
Average common shares outstanding	69,044,876	50,378,613	66,836,396	50,336,741
Equivalents from stock options	224,433	94,346	232,956	65,714
Average diluted shares outstanding	69,269,309	50,472,959	67,069,352	50,402,455
Earnings per basic common share	\$ 0.48	\$ 0.44	\$ 1.45	\$ 1.31

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

Earnings per diluted common share	\$	0.48	\$	0.44	\$	1.44	\$	1.31
-----------------------------------	----	------	----	------	----	------	----	------

### **18. VARIABLE INTEREST ENTITIES**

Variable interest entities (VIEs) are entities that either have a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest (i.e., ability to make significant decisions, through voting rights, right to receive the expected residual returns of the entity, and obligation to absorb the expected losses of the entity). VIEs can be structured as corporations, trusts, partnerships, or other legal entities. United's business practices include relationships with certain VIEs. For United, the business purpose of these relationships primarily consists of funding

**Table of Contents**

activities in the form of issuing trust preferred securities.

United currently sponsors fifteen statutory business trusts that were created for the purpose of raising funds that qualify for Tier I regulatory capital. These trusts, of which several were acquired through bank acquisitions, issued or participated in pools of trust preferred capital securities to third-party investors with the proceeds invested in junior subordinated debt securities of United. The Company, through a small capital contribution, owns 100% of the voting equity shares of each trust. The assets, liabilities, operations, and cash flows of each trust are solely related to the issuance, administration, and repayment of the preferred equity securities held by third-party investors. United fully and unconditionally guarantees the obligations of each trust and is obligated to redeem the junior subordinated debentures upon maturity.

The trusts utilized in these transactions are VIEs as the third-party equity holders lack a controlling financial interest in the trusts through their inability to make decisions that have a significant effect on the operations and success of the entities. United does not consolidate these trusts as it is not the primary beneficiary of these entities because United's equity interest does not absorb the majority of the trusts' expected losses or receive a majority of their expected residual returns.

Information related to United's statutory trusts is presented in the table below:

Description	Issuance Date	Amount of Capital Securities Issued	Interest Rate	Maturity Date
Century Trust	March 23, 2000	\$ 8,800	10.875% Fixed	March 8, 2030
Sequoia Trust I	March 28, 2001	\$ 2,000	10.18% Fixed	June 8, 2031
United Statutory Trust III	December 17, 2003	\$ 20,000	3-month LIBOR + 2.85%	December 17, 2033
United Statutory Trust IV	December 19, 2003	\$ 25,000	3-month LIBOR + 2.85%	January 23, 2034
United Statutory Trust V	July 12, 2007	\$ 50,000	3-month LIBOR + 1.55%	October 1, 2037
United Statutory Trust VI	September 20, 2007	\$ 30,000	3-month LIBOR + 1.30%	December 15, 2037
Premier Statutory Trust II	September 25, 2003	\$ 6,000	3-month LIBOR + 3.10%	October 8, 2033
Premier Statutory Trust III	May 16, 2005	\$ 8,000	3-month LIBOR + 1.74%	June 15, 2035
Premier Statutory Trust IV	June 20, 2006	\$ 14,000	3-month LIBOR + 1.55%	September 23, 2036
Premier Statutory Trust V	December 14, 2006	\$ 10,000	3-month LIBOR + 1.61%	March 1, 2037
Centra Statutory Trust I	September 20, 2004	\$ 10,000	3-month LIBOR + 2.29%	September 20, 2034
Centra Statutory Trust II	June 15, 2006	\$ 10,000	3-month LIBOR + 1.65%	July 7, 2036
Virginia Commerce Trust II	December 19, 2002	\$ 15,000	6-month LIBOR + 3.30%	December 19, 2032
Virginia Commerce Trust III	December 20, 2005	\$ 25,000	3-month LIBOR + 1.42%	February 23, 2036
Virginia Commerce Trust IV	September 24, 2008	\$ 25,000	10.20% Fixed	September 30, 2038

On November 7, 2014, UBV Holding Company, Inc., a wholly-owned subsidiary of United, submitted redemption notices to Wilmington Trust Company, as Trustee, to redeem the trust preferred securities listed below. Under applicable regulatory capital guidelines issued by bank regulatory agencies, upon notice of the redemption, the amount of trust preferred securities that will be redeemed will no longer qualify as Tier 1 capital for United. The Federal Reserve Board did not object to the redemption of the securities. The redemptions will be funded with excess cash currently available to United.

Trust	Interest Rate	Redemption Price	Principal Amount Outstanding	Principal Amount to be Redeemed	Redemption Date
Sequoia Capital Trust I	10.18%	103.563%	\$ 2,000	\$ 2,000	December 8, 2014
VCBI Capital Trust IV	10.20%	100.000%	\$ 25,000	\$ 25,000	December 30, 2014

United, through its banking subsidiaries, also makes limited partner equity investments in various low income housing and community development partnerships sponsored by independent third-parties. United invests in these partnerships to either realize tax credits on its consolidated federal income tax return or for purposes of earning a return on its investment. These partnerships are considered VIEs as the limited partners lack a controlling financial interest in the entities through their inability to make decisions that have a significant effect on the operations and success of the partnerships. United's limited partner interests in these entities is immaterial, however; these partnerships are not consolidated as United is not deemed to be the primary beneficiary.



**Table of Contents**

The following table summarizes quantitative information about United's significant involvement in unconsolidated VIEs:

	As of September 30, 2014			As of December 31, 2013		
	Aggregate Assets	Aggregate Liabilities	Risk Of Loss <sup>(1)</sup>	Aggregate Assets	Aggregate Liabilities	Risk Of Loss <sup>(1)</sup>
Trust preferred securities	\$ 268,315	\$ 259,454	\$ 8,861	\$ 201,186	\$ 194,453	\$ 6,733

(1) Represents investment in VIEs.

## 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, involve 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; business conditions in the banking industry; 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.

### SUBSEQUENT EVENT

On November 7, 2014, United, through a wholly-owned subsidiary, submitted redemption notices to Wilmington Trust Company, as Trustee, to redeem the trust preferred securities issued by Sequoia Capital Trust I and VCBI Capital Trust IV. Further information regarding the redemption of these trust preferred securities is presented in Note 18 to the unaudited Notes to Consolidated Financial Statements.

### RECENT DEVELOPMENTS

On December 10, 2013, the banking agencies issued a final rule implementing Section 619 of the Dodd-Frank Act, commonly referred to as the Volcker Rule. The final rule requires banking entities to divest disallowed securities by July 21, 2015, unless, upon application, the Federal Reserve grants extensions to July 21, 2017. On January 14, 2014, the banking agencies approved an interim final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities (Trup Cdos) from the prohibitions under the Volcker Rule.

On July 2, 2013, the Federal Reserve, United's and its banking subsidiaries' primary federal regulator, published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as Basel III for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including United and its banking subsidiaries, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 Basel II capital accords. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel III Capital Rules are effective for United and its banking subsidiaries on January 1, 2015 (subject to a phase-in period). Management believes that, as of September 30, 2014



## **Table of Contents**

United and its banking subsidiaries would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective.

## **INTRODUCTION**

The following discussion and analysis presents the significant changes in financial condition and the results of operations of United and its subsidiaries for the periods indicated below. This discussion and the unaudited consolidated financial statements and the notes to unaudited Consolidated Financial Statements include the accounts of United Bankshares, Inc. and its wholly-owned subsidiaries, unless otherwise indicated. Management has evaluated all significant events and transactions that occurred after September 30, 2014, but prior to the date these financial statements were issued, for potential recognition or disclosure required in these financial statements.

In addition, after the close of business on January 31, 2014, United acquired 100% of the outstanding common stock of Virginia Commerce Bancorp, Inc. (Virginia Commerce), a Virginia corporation headquartered in Arlington, Virginia. The results of operations of Virginia Commerce are included in the consolidated results of operations from the date of acquisition. The acquisition of Virginia Commerce enhances United's existing footprint in the Washington, D.C. MSA. Virginia Commerce was merged with and into George Mason Bankshares, Inc., a wholly-owned subsidiary of United (the Merger) in a transaction to be accounted for under the acquisition method of accounting. At consummation, Virginia Commerce had assets of approximately \$2.77 billion, loans of \$2.10 billion, and deposits of \$2.02 billion. In addition, on February 20, 2014, United sold a former branch building for approximately \$11.1 million and recognized a before-tax gain of \$8.98 million.

This discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and accompanying notes thereto, which are included elsewhere in this document.

## **USE OF NON-GAAP FINANCIAL MEASURES**

This discussion and analysis contains certain financial measures that are not recognized under GAAP. Under SEC Regulation G, public companies making disclosures containing financial measures that are not in accordance with GAAP must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure, as well as a statement of the company's reasons for utilizing the non-GAAP financial measure.

Generally, United has presented these non-GAAP financial measures because it believes that these measures provide meaningful additional information to assist in the evaluation of United's results of operations or financial position. Presentation of these non-GAAP financial measures is consistent with how United's management evaluates its performance internally and these non-GAAP financial measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the banking industry. Specifically, this discussion contains certain references to financial measures identified as tax-equivalent net interest income and noninterest income excluding the results of the noncash, other-than-temporary impairment charges as well as net gains and losses from sales and calls of investment securities. Management believes these non-GAAP financial measures to be helpful in understanding United's results of operations or financial position. However, this non-GAAP information should be considered supplemental in nature and not as a substitute for related financial information prepared in accordance with GAAP.

Where non-GAAP financial measures are used, the comparable GAAP financial measure, as well as reconciliation to that comparable GAAP financial measure, as well as a statement of the company's reasons for utilizing the non-GAAP financial measure, can be found within this discussion and analysis. Investors should recognize that United's presentation of these non-GAAP financial measures might not be comparable to similarly titled measures at other companies.

---

**Table of Contents****APPLICATION OF CRITICAL ACCOUNTING POLICIES**

The accounting and reporting policies of United conform with U.S. generally accepted accounting principles. 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, which are reviewed with the Audit Committee of the Board of Directors, 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 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 investment securities and the related other-than-temporary impairment analysis, 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.

*Allowance for Credit Losses*

As explained in Note 6, Allowance for Credit Losses to the unaudited Consolidated Financial Statements, the allowance for loan losses represents management's estimate of the probable credit losses inherent in the lending portfolio. Determining the allowance for loan losses requires management to make estimates of losses that are highly uncertain and require a high degree of judgment. At September 30, 2014, the allowance for loan losses was \$75.7 million and is subject to periodic adjustment based on management's assessment of current probable losses in the loan portfolio. Such adjustment from period to period can have a significant impact on United's consolidated financial statements. To illustrate the potential effect on the financial statements of our estimates of the allowance for loan losses, a 10% increase in the allowance for loan losses would have required \$7.52 million in additional allowance (funded by additional provision for credit losses), which would have negatively impacted the first nine months of 2014 net income by approximately \$4.89 million, after-tax or \$0.07 diluted per common share. Management's evaluation of the adequacy of the allowance for loan losses and the appropriate provision for loan losses is based upon a quarterly evaluation of the loan portfolio. This evaluation is inherently subjective and requires significant estimates, including estimates related to 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 loan 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 loan losses is described in Note 6. 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 (MD&A). Additional information relating to United's loans is included in Note 4, Loans to the unaudited Consolidated Financial Statements.

*Investment Securities*

Accounting estimates are used in the presentation of the investment portfolio and these estimates impact the presentation of United's financial condition and results of operations. United classifies its investments in debt as either held to maturity or available for sale and its equity securities as available for sale. Securities held to maturity are accounted for using historical costs, adjusted for amortization of premiums and accretion of discounts. Securities available for sale are accounted for at fair value, with the net unrealized gains and losses, net of income tax effects,



---

**Table of Contents**

presented as a separate component of shareholders' equity. When available, fair values of securities are based on quoted prices or prices obtained from third party vendors. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data. Prices obtained from third party vendors that do not reflect forced liquidation or distressed sales are not adjusted by management. Where prices reflect forced liquidation or distressed sales, as is the case with United's portfolio of trust preferred securities (Trup Cdos), management estimates fair value based on a discounted cash flow methodology using appropriately adjusted discount rates reflecting nonperformance and liquidity risks. Due to the subjective nature of this valuation process, it is possible that the actual fair values of these securities could differ from the estimated amounts, thereby affecting United's financial position, results of operations and cash flows. The potential impact to United's financial position, results of operations or cash flows for changes in the valuation process cannot be reasonably estimated.

If the estimated value of investments is less than the cost or amortized cost, the investment is considered impaired and management evaluates whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred, management must exercise judgment to determine the nature of the potential impairment (i.e., temporary or other-than-temporary) in order to apply the appropriate accounting treatment. If United intends to sell, or is more likely than not they will be required to sell an impaired debt security before recovery of its amortized cost basis less any current period credit loss, other-than-temporary impairment is recognized in earnings. The amount recognized in earnings is equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. If United does not intend to sell, and is not more likely than not they will be required to sell the impaired debt security prior to recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment is separated into the following: 1) the amount representing the credit loss, which is recognized in earnings, and 2) the amount related to all other factors, which is recognized in other comprehensive income. Given the recent disruptions in the financial markets, the decision to recognize other-than-temporary impairment on investment securities has become more difficult as complete information is not always available and market conditions and other relevant factors are subject to rapid changes. Therefore, the other-than-temporary impairment assessment has become a critical accounting policy for United. For additional information on management's consideration of investment valuation and other-than-temporary impairment, see Note 3, Investment Securities, and Note 12, Fair Value Measurements, to the unaudited consolidated financial statements.

*Accounting for Acquired Loans*

Loans acquired are initially recorded at their acquisition date fair values. The fair value of the acquired loans are based on the present value of the expected cash flows, including principal, interest and prepayments. Periodic principal and interest cash flows are adjusted for expected losses and prepayments, then discounted to determine the present value and summed to arrive at the estimated fair value. Fair value estimates involve assumptions and judgments as to credit risk, interest rate risk, prepayment risk, liquidity risk, default rates, loss severity, payment speeds, collateral values and discount rate.

Acquired loans are divided into loans with evidence of credit quality deterioration, which are accounted for under ASC topic 310-30 (acquired impaired) and loans that do not meet this criteria, which are accounted for under ASC topic 310-20 (acquired performing). Acquired impaired loans have experienced a deterioration of credit quality from origination to acquisition for which it is probable that United will be unable to collect all contractually required payments receivable, including both principal and interest. In the assessment of credit quality, numerous assumptions, interpretations and judgments must be made, based on internal and third-party credit quality information and ultimately the determination as to the probability that all contractual cash flows will not be able to be collected. This is a point in time assessment and inherently subjective due to the nature of the available information and judgment involved.

---

## **Table of Contents**

Subsequent to the acquisition date, United continues to estimate the amount and timing of cash flows expected to be collected on acquired impaired loans. Increases in expected cash flows will generally result in a recovery of any previously recorded allowance for loan losses, to the extent applicable, and/or a reclassification from the nonaccretable difference to accretable yield, which will be recognized prospectively. The present value of any decreases in expected cash flows after the acquisition date will generally result in an impairment charge recorded as a provision for loan losses, resulting in an increase to the allowance for loan losses.

For acquired performing loans, the difference between the acquisition date fair value and the contractual amounts due at the acquisition date represents the fair value adjustment. Fair value adjustments may be discounts (or premiums) to a loan's cost basis and are accreted (or amortized) to interest income over the loan's remaining life using the level yield method. Subsequent to the acquisition date, the methods utilized to estimate the required allowance for loan losses for these loans is similar to originated loans.

See Note 2, Merger and Acquisitions, and Note 4, Loans, to the unaudited Consolidated Financial Statements for information regarding United's acquired loans disclosures.

### *Income Taxes*

United's calculation of income tax provision is inherently complex due to the various different tax laws and jurisdictions in which we operate and requires management's use of estimates and judgments in its determination. The current income tax liability also includes income tax expense related to our uncertain tax positions as required in ASC topic 740, Income Taxes. Changes to the estimated accrued taxes can occur due to changes in tax rates, implementation of new business strategies, resolution of issues with taxing authorities and recently enacted statutory, judicial and regulatory guidance. These changes can be material to the Company's operating results for any particular reporting period. The analysis of the income tax provision requires the assessments of the relative risks and merits of the appropriate tax treatment of transactions, filing positions, filing methods and taxable income calculations after considering statutes, regulations, judicial precedent and other information. 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. The potential impact to United's operating results for any of the changes cannot be reasonably estimated. See Note 15, Income Taxes, to the unaudited Consolidated Financial Statements for information regarding United's ASC topic 740 disclosures.

### *Use of Fair Value Measurements*

United determines the fair value of its financial instruments based on the fair value hierarchy established in ASC topic 820, whereby the fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC topic 820 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs in the methodology for determining fair value are observable or unobservable. Observable inputs reflect market-based information obtained from independent sources (Level 1 or Level 2), while unobservable inputs reflect management's estimate of market data (Level 3). For assets and liabilities that are actively traded and have quoted prices or observable market data, a minimal amount of subjectivity concerning fair value is needed. Prices and values obtained from third party vendors that do not reflect forced liquidation or distressed sales are not adjusted by management. When quoted prices or observable market data are not available, management's judgment is necessary to estimate fair value.

At September 30, 2014, approximately 10.38% of total assets, or \$1.25 billion, consisted of financial instruments

**Table of Contents**

recorded at fair value. Of this total, approximately 94.54% or \$1.19 billion of these financial instruments used valuation methodologies involving observable market data, collectively Level 1 and Level 2 measurements, to determine fair value. Approximately 5.46% or \$68.52 million of these financial instruments were valued using unobservable market information or Level 3 measurements. Most of these financial instruments valued using unobservable market information were pooled trust preferred investment securities classified as available-for-sale. At September 30, 2014, only \$663 thousand or less than 1% of total liabilities were recorded at fair value. This entire amount was valued using methodologies involving observable market data. United does not believe that any changes in the unobservable inputs used to value the financial instruments mentioned above would have a material impact on United's results of operations, liquidity, or capital resources. See Note 12, Fair Value Measurements, to the unaudited Consolidated Financial Statements for additional information regarding ASC topic 820 and its impact on United's financial statements.

Any material effect on the financial statements related to these critical accounting areas are further discussed in this MD&A.

**FINANCIAL CONDITION**

United's total assets as of September 30, 2014 were \$12.09 billion which was an increase of \$3.35 billion or 38.35% from December 31, 2013, primarily the result of the acquisition of Virginia Commerce Bancorp, Inc. (Virginia Commerce) after the close of business on January 31, 2014. Portfolio loans increased \$2.31 billion or 34.47%, cash and cash equivalents increased \$174.65 million or 41.92%, investment securities increased \$417.90 million or 46.99%, goodwill increased \$336.52 million or 89.61%, other assets increased \$95.15 million or 29.49%, bank premises and equipment increased \$8.11 million or 11.60% and interest receivable increased \$6.07 million or 22.78% due primarily to the Virginia Commerce merger. Total liabilities increased \$2.74 billion or 35.59% from year-end 2013. This increase in total liabilities was due mainly to an increase of \$2.13 billion or 32.19% and \$601.03 million or 59.72% in deposits and borrowings, respectively, mainly due to the Virginia Commerce acquisition. Shareholders' equity increased \$611.94 million or 58.74% from year-end 2013 due primarily to the acquisition of Virginia Commerce.

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

**Cash and Cash Equivalents**

Cash and cash equivalents at September 30, 2014 increased \$174.65 million or 41.92% from year-end 2013. Of this total increase, interest-bearing deposits with other banks increased \$122.69 million or 43.65% as United placed excess cash in an interest-bearing account with the Federal Reserve. In addition, cash and due from banks increased \$51.97 million or 38.55% and federal funds sold were flat. During the first nine months of 2014, net cash of \$99.50 million and \$190.76 million was provided by operating activities and financing activities, respectively, while \$115.60 million was used in investing activities. See the unaudited Consolidated Statements of Cash Flows for data on cash and cash equivalents provided and used in operating, investing and financing activities for the first nine months of 2014 and 2013.

**Securities**

Total investment securities at September 30, 2014 increased \$417.90 million or 46.99% from year-end 2013. Virginia Commerce added \$476.54 million in investment securities, including purchase accounting amounts, upon consummation of the acquisition. Securities available for sale increased \$387.28 million or 49.95%. This change in securities available for sale reflects \$461.76 million acquired from Virginia Commerce, \$498.37 million in sales, maturities and calls of securities, \$403.28 million in purchases, and an increase of \$22.12 million in market value. Securities held to maturity declined \$996 thousand or 2.43% from year-end 2013 due to calls and maturities of

**Table of Contents**

securities. Other investment securities increased \$31.62 million or 43.26% from year-end 2013. Virginia Commerce added \$14.78 million in other investment securities. Otherwise, Federal Reserve Bank (FRB) stock increased \$13.05 million and FHLB stock increased \$4.11 million.

The following table summarizes the changes in the available for sale securities since year-end 2013:

<i>(Dollars in thousands)</i>	September 30 2014	December 31 2013	\$ Change	% Change
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 93,998	\$ 171,754	\$ (77,756)	(45.27%)
State and political subdivisions	135,841	62,709	73,132	116.62%
Mortgage-backed securities	864,450	466,428	398,022	85.33%
Asset-backed securities	8,031	9,227	(1,196)	(12.96%)
Marketable equity securities	4,051	3,870	181	4.68%
Trust preferred collateralized debt obligations	38,819	43,449	(4,630)	(10.66%)
Single issue trust preferred securities	12,210	12,632	(422)	(3.34%)
Corporate securities	5,159	5,215	(56)	(1.07%)
<b>Total available for sale securities, at fair value</b>	<b>\$ 1,162,559</b>	<b>\$ 775,284</b>	<b>\$ 387,275</b>	<b>49.95%</b>

The following table summarizes the changes in the held to maturity securities since year-end 2013:

<i>(Dollars in thousands)</i>	September 30 2014	December 31 2013	\$ Change	% Change
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 10,640	\$ 10,762	\$ (122)	(1.13%)
State and political subdivisions	9,989	10,367	(378)	(3.65%)
Mortgage-backed securities	42	50	(8)	(16.00%)
Single issue trust preferred securities	19,278	19,766	(488)	(2.47%)
Other corporate securities	20	20	0	0.00%
<b>Total held to maturity securities, at amortized cost</b>	<b>\$ 39,969</b>	<b>\$ 40,965</b>	<b>\$ (996)</b>	<b>(2.43%)</b>

At September 30, 2014, gross unrealized losses on available for sale securities were \$21.97 million. Securities in an unrealized loss position at September 30, 2014 consisted primarily of Trup Cdos and agency commercial mortgage-backed securities. The Trup Cdos relate mainly to underlying securities of financial institutions. The agency commercial mortgage-backed securities relate mainly to income-producing multifamily properties and provide a guaranty of full and timely payments of principal and interest by Fannie Mae or Freddie Mac.

As of September 30, 2014, United's mortgage-backed securities had an amortized cost of \$863.38 million, with an estimated fair value of \$864.50 million. The portfolio consisted primarily of \$537.93 million in agency residential mortgage-backed securities with a fair value of \$541.68 million, \$12.87 million in non-agency residential mortgage-backed securities with an estimated fair value of \$13.60 million, and \$312.58 million in commercial agency mortgage-backed securities with an estimated fair value of \$309.22 million. As of September 30, 2014, United's asset-backed securities had an amortized cost of \$8.01 million, with an estimated fair value of \$8.03 million.

As of September 30, 2014, United's corporate securities had an amortized cost of \$93.88 million, with an estimated fair value of \$76.90 million. The portfolio consisted primarily of \$52.37 million in Trup Cdos with a fair value of \$38.82 million and \$33.03 million in single issue trust preferred securities with an estimated fair value of \$28.85 million. The portfolio also included other corporate securities with an amortized cost of \$5.02 million and an estimated fair value of \$5.18 million. In addition to these trust preferred securities, the Company held positions in various other corporate securities, including marketable equity securities, with an amortized cost of \$3.47 million and a fair value of \$4.05 million.



**Table of Contents**

The Trup Cdos consisted of pools of trust preferred securities issued by trusts related primarily to financial institutions and to a lesser extent, insurance companies. The Company has no exposure to Real Estate Investment Trusts (REITs) in its investment portfolio. The Company owns both senior and mezzanine tranches in the Trup Cdos; however, the Company does not own any income notes. The senior and mezzanine tranches of Trup Cdos generally have some protection from defaults in the form of over-collateralization and excess spread revenues, along with waterfall structures that redirect cash flows in the event certain coverage test requirements have failed. Generally, senior tranches have the greatest protection, with mezzanine tranches subordinated to the senior tranches, and income notes subordinated to the mezzanine tranches. The fair value of senior tranches represents \$6.13 million of the Company's pooled securities, while mezzanine tranches represent \$32.69 million. Of the \$32.69 million in mezzanine tranches, \$9.66 million are now in the Senior position as the Senior notes have been paid to a zero balance. As of September 30, 2014, Trup Cdos with a fair value of \$3.90 million were split-rated, and the remaining \$34.92 million were below investment grade. In terms of capital adequacy, the Company allocates additional risk-based capital to the below investment grade securities. As of September 30, 2014, United's single issue trust preferred securities had a fair value of \$28.85 million. Of the \$28.85 million, \$9.50 million or 32.93% were investment grade; \$7.60 million or 26.33% were split rated; and \$11.75 million or 40.74% were below investment grade. The two largest exposures accounted for 53.04% of the \$28.85 million. These included Wells Fargo at \$8.80 million and SunTrust Bank at \$6.50 million. All single-issue trust preferred securities are currently receiving full scheduled principal and interest payments.

The following two tables provide a summary of Trup Cdos with at least one rating below investment grade as of September 30, 2014:

Description	Tranche	Class	Moodys	S&P	Fitch	Amortized Cost Basis	Fair Value	Unrealized Loss (Gain)	Cumulative Credit- Related OTTI
SECURITY 1	Senior	Sr	Ca	NR	WD	\$ 2,725	\$ 2,233	\$ 492	\$ 1,219
SECURITY 2	Senior (org Mezz)	B	Ca	NR	WD	6,783	3,962	2,821	7,043
SECURITY 3	Senior (org Mezz)	Mez	C	NR	WD	0	0	0	61
SECURITY 4	Mezzanine	C	C	NR	C	1,269	1,471	(202)	1,546
SECURITY 5	Mezzanine	C-2	Caa3	NR	C	1,978	1,170	808	184
SECURITY 6	Mezzanine	C-1	Ca	NR	C	1,916	1,342	574	1,316
SECURITY 7	Mezzanine	B-1	Caa1	NR	C	4,487	3,221	1,266	41
SECURITY 8	Mezzanine	B-1	Ca	NR	C	3,676	2,799	877	1,651
SECURITY 9	Senior (org Mezz)	Mez	Ca	NR	C	0	0	0	3,214
SECURITY 10	Mezzanine	B	Ca	NR	WD	240	240	0	15,760
SECURITY 11	Mezzanine	B-1	Ca	NR	D	0	0	0	7,606
SECURITY 12	Senior (org Mezz)	Mez	Caa1	NR	C	1,434	1,870	(436)	588
SECURITY 13	Senior (org Mezz)	Mez	Caa1	NR	C	962	1,091	(129)	406
SECURITY 14	Mezzanine	B-1	Caa1	NR	C	3,473	2,471	1,002	422
SECURITY 15	Mezzanine	B	Caa3	NR	C	6,436	4,600	1,836	3,531
SECURITY 16	Mezzanine	B-2	Ca	NR	C	3,821	2,300	1,521	1,179
SECURITY 17	Mezzanine	B-1	Caa2	NR	C	2,250	1,740	510	750
SECURITY 18	Senior	A-3	Aa1	BB+	A	5,000	3,900	1,100	0
SECURITY 19	Senior (org Mezz)	B	Ba1	NR	BB	3,420	2,735	685	0
SECURITY 20	Mezzanine	B-2	NR	CCC+	CCC	0	0	0	756
SECURITY 21	Mezzanine	B-1	NR	CCC-	CCC	0	0	0	450

**Table of Contents**

Description	Tranche	Class	Moodys	S&P	Fitch	Amortized Cost Basis	Fair Value	Unrealized Loss (Gain)	Cumulative Credit-Related OTTI
SECURITY 22	Mezzanine	B-1	B3	NR	C	2,500	1,675	825	0
						\$ 52,370	\$ 38,820	\$ 13,550	\$ 47,723

Desc.	# of Issuers Currently Performing (1)	Deferrals as % of Original Collateral	Defaults as a % of Original Collateral	Expected Deferrals and Defaults as a % of Remaining Performing Collateral (2)	Projected Recovery/Cure Rates on Deferring Collateral	Excess Subordination as % of Performing Collateral	Amortized Cost as a % of Par Value	Discount as a % of Par Value (3)
1	6	10.7%	13.3%	8.3%	65 - 85%	(75.8)%	67.1%	32.9%
2	6	0.7%	11.1%	6.8%	90%	(81.6)%	47.9%	52.1%
3	0	1.9%	3.6%	0.0%	0%	0.0%	0.0%	100%
4	37	20.1%	12.1%	6.9%	0 - 90%	(12.8)%	43.1%	56.9%
5	41	6.7%	12.9%	7.1%	45 - 90%	(4.0)%	91.3%	8.7%
6	44	7.5%	19.0%	6.7%	0 - 90%	(19.3)%	58.5%	41.5%
7	21	0.0%	20.3%	7.2%	N/A	(12.3)%	85.0%	15.0%
8	27	3.3%	22.4%	7.4%	75 - 90%	(25.9)%	68.3%	31.7%
9	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10	8	4.6%	14.6%	6.8%	10%	(67.9)%	1.5%	98.5%
11	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
12	6	0.0%	19.5%	5.6%	N/A	(4.0)%	75.9%	24.1%
13	6	0.0%	19.5%	5.6%	N/A	(4.0)%	87.3%	12.7%
14	35	15.3%	9.6%	7.1%	15 - 90%	1.6%	88.5%	11.5%
15	16	4.5%	19.0%	9.5%	15 - 90%	(37.1)%	64.4%	35.6%
16	15	4.4%	18.8%	7.1%	0%	(30.5)%	76.4%	23.6%
17	30	3.0%	12.0%	7.0%	90%	(4.4)%	75.0%	25.0%
18	28	5.8%	12.9%	6.3%	15%	60.3%	100%	0.0%
19	5	0.6%	4.6%	6.7%	90%	31.4%	100%	0.0%
20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
21	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
22	33	3.7%	11.5%	7.4%	50 - 90%	2.3%	100%	0.0%

- (1) Performing refers to all outstanding issuers less issuers that have either defaulted or are currently deferring their interest payment.
- (2) Expected Deferrals and Defaults refers to projected future defaults on performing collateral and does not include the projected defaults on deferring collateral.
- (3) The Discount in the table above represents the Par Value less the Amortized Cost. This metric generally approximates the level of OTTI that has been incurred on these securities.

The Company defines Excess Subordination as all outstanding collateral less the sum of (i) 100% of the defaulted collateral, (ii) the sum of the projected net loss amounts for each piece of the deferring but not defaulted collateral and (iii) the amount of each Trup Cdo's debt that is either senior to or pari passu with our security's priority level.

The calculation of excess subordination in the above table does not consider the OTTI the Company has recognized on these securities. While the ratio of excess subordination provides some insight on overall collateralization levels, the Company completes an expected cash flow analysis each quarter to determine whether an adverse change in future cash flows has occurred under ASC 320. The standard specifies that a cash flow projection can be present-valued at





**Table of Contents**

the security specific effective interest rate and the resulting present value compared to the amortized cost in order to quantify the credit component of impairment. The Company utilizes the cash flow models to determine the net realizable value and assess whether additional OTTI has occurred. The ratio of excess subordination represents only one component of the projected cash flow.

The Company believes the excess subordination is limited as it does not consider the following:

Waterfall structure and redirection of cash flows

Excess interest spread

Cash reserves

The collateral backing of a particular tranche can be increased by decreasing the more senior liabilities of the Trup Cdo tranche. This occurs when collateral deterioration due to defaults and deferrals triggers alternative waterfall provisions of the cash flow. The waterfall structure of the bond requires the excess spread to be rerouted away from the most junior classes of debt (which includes the income notes) in order to pay down the principal of the most senior liabilities. As these senior liabilities are paid down, the senior and mezzanine tranches become better secured (due to the rerouting away from the income notes). Therefore, variances will exist between the calculated excess subordination measure and the amount of OTTI recognized due to the impact of the specific structural features of each bond as it relates to the cash flow models.

The following is a summary of available for sale single-issue trust preferred securities with at least one rating below investment grade as of September 30, 2014:

Security	Moody's	S&P	Fitch	Amortized Cost	Fair Value	Unrealized Loss/ (Gain)
Emigrant	NR	NR	B	\$ 5,666	\$ 4,080	\$ 1,586
Bank of America	Ba1	NR	BB+	4,592	4,350	242
M&T Bank	NR	BBB-	BB+	2,989	3,264	(275)
Bank of America	Ba1	BB	BB+	500	516	(16)
				\$ 13,747	\$ 12,210	\$ 1,537

Additionally, the Company owns two single-issue trust preferred securities that are classified as held-to-maturity and include at least one rating below investment grade. These securities include SunTrust Bank (\$7.40 million) and Royal Bank of Scotland (\$973 thousand).

During the first nine months and third quarter of 2014, United recognized net other-than-temporary impairment charges totaling \$5.77 million and \$4.71 million, respectively, on certain Trup Cdos, which are not expected to be sold. Other than these securities, management does not believe that any other individual security with an unrealized loss as of September 30, 2014 is other-than-temporarily impaired. United believes the decline in value resulted from changes in market interest rates, credit spreads and liquidity, not an adverse change in the expected contractual cash flows. Based on a review of each of the securities in the investment portfolio, management concluded that it was not probable that it would be unable to realize the cost basis investment and appropriate interest payments on such securities. 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.

Further information regarding the amortized cost and estimated fair value of investment securities, including remaining maturities as well as a more detailed discussion of management's other-than-temporary impairment analysis, is presented in Note 3 to the unaudited Notes to Consolidated Financial Statements.



**Table of Contents****Loans**

Loans held for sale increased \$1.54 million or 36.28% as loan originations in the secondary market exceeded loan sales during the first nine months of 2014. Portfolio loans, net of unearned income, increased \$2.31 billion or 34.47% from year-end 2013 mainly as a result of the Virginia Commerce acquisition which added \$2.01 billion, including purchase accounting amounts, in portfolio loans. Since year-end 2013, commercial, financial and agricultural loans increased \$1.45 billion or 36.95% as commercial real estate loans increased \$1.19 billion and commercial loans (not secured by real estate) increased \$254.25 million. In addition, residential real estate loans and construction and land development loans increased \$407.98 million or 22.40% and \$418.26 million or 62.39%, respectively, while other consumer loans increased \$46.28 million or 15.44%. The increases were due primarily to the Virginia Commerce acquisition. Otherwise, portfolio loans, net of unearned income, grew organically \$308.23 million from year-end 2013.

The following table summarizes the changes in the major loan classes since year-end 2013:

(Dollars in thousands)	September 30 2014	December 31 2013	\$ Change	% Change
Loans held for sale	\$ 5,773	\$ 4,236	\$ 1,537	36.28%
Commercial, financial, and agricultural:				
Owner-occupied commercial real estate	\$ 1,044,951	\$ 654,963	\$ 389,988	59.54%
Nonowner-occupied commercial real estate	2,718,821	1,917,785	801,036	41.77%
Other commercial loans	1,592,606	1,338,355	254,251	19.00%
Total commercial, financial, and agricultural	\$ 5,356,378	\$ 3,911,103	\$ 1,445,275	36.95%
Residential real estate	2,229,353	1,821,378	407,975	22.40%
Construction & land development	1,088,627	670,364	418,263	62.39%
Consumer:				
Bankcard	10,110	11,023	(913)	(8.28%)
Other consumer	346,015	299,731	46,284	15.44%
Less: Unearned income	(14,580)	(9,016)	(5,564)	61.71%
Total Loans, net of unearned income	\$ 9,015,903	\$ 6,704,583	\$ 2,311,320	34.47%

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

**Other Assets**

Other assets increased \$95.15 million or 29.49% from year-end 2013. The Virginia Commerce acquisition added \$104.59 million in other assets plus an additional \$17.14 million in core deposit intangibles. The cash surrender value of bank-owned life insurance policies increased \$38.88 million. This increase was due mainly to \$46.72 million of bank-owned life insurance policies acquired from Virginia Commerce partially offset by payments totaling \$8.93 million for policies that were surrendered during the first nine months of 2014. The remainder of the increase in other assets is the result of an increase of \$11.67 million in deferred tax assets, an increase of \$4.25 million in OREO and an increase of \$22.20 million in income taxes receivable.

**Deposits**

Deposits represent United's primary source of funding. Total deposits at September 30, 2014 increased \$2.13 billion or 32.19% from year-end 2013 as a result of the Virginia Commerce acquisition. Virginia Commerce added \$2.02 billion in deposits, including purchase accounting amounts. In terms of composition, noninterest-bearing deposits increased \$663.79 million or 35.41% while interest-bearing deposits increased \$1.47 billion or 30.92% from

**Table of Contents**

December 31, 2013. Organically, deposits increased \$110.11 million from year-end 2013.

The increase in noninterest-bearing deposits was due mainly to increases in commercial noninterest-bearing deposits of \$518.50 million or 37.94%, personal noninterest-bearing deposits of \$52.59 million or 12.78% and noninterest-bearing public funds of \$23.91 million or 44.32% as a result of the Virginia Commerce acquisition.

The increase in interest-bearing deposits was due mainly to the Virginia Commerce acquisition as all major categories of interest-bearing deposits increased. Interest-bearing money market accounts (MMDAs) increased \$657.07 million or 53.68%, time deposits over \$100,000 increased \$219.71 million or 24.87%, time deposits under \$100,000 increased \$114.67 million or 12.92%, and regular savings balances increased \$85.17 million or 15.31%. The \$657.07 million increase in interest-bearing MMDAs is due to a \$341.78 million and a \$320.51 million increase in personal MMDAs and commercial MMDAs, respectively. Public funds MMDAs, on the other hand, decreased \$5.23 million or 13.30%. The \$219.71 million increase in time deposits over \$100,000 is the result of a \$156.40 million increase in fixed rate certificates of deposits (CDs), a \$49.82 million increase in Certificate of Deposit Account Registry Service (CDARS) balances and a \$14.17 million increase in variable rate CDs. The \$114.67 million increase in time deposits under \$100,000 is due to fixed rate CDs increasing \$92.93 million, variable rate CDs increasing \$13.67 million, and CDARS balances increasing \$5.19 million. Interest-bearing checking deposits increased \$391.28 million mainly due to a \$283.80 million increase in personal interest-bearing checking accounts, an \$80.82 million increase in commercial interest-bearing checking accounts, and a \$26.66 million increase in state and municipal interest-bearing checking accounts.

The following table summarizes the changes in the deposit categories since year-end 2013:

<i>(Dollars In thousands)</i>	<b>September 30 2014</b>	<b>December 31 2013</b>	<b>\$ Change</b>	<b>% Change</b>
Demand deposits	\$ 2,538,310	\$ 1,874,520	\$ 663,790	35.41%
Interest-bearing checking	1,587,240	1,195,956	391,284	32.72%
Regular savings	641,349	556,183	85,166	15.31%
Money market accounts	1,881,181	1,224,116	657,065	53.68%
Time deposits under \$100,000	1,002,186	887,516	114,670	12.92%
Time deposits over \$100,000	1,102,991	883,280	219,711	24.87%
<b>Total deposits</b>	<b>\$ 8,753,257</b>	<b>\$ 6,621,571</b>	<b>\$ 2,131,686</b>	<b>32.19%</b>

**Borrowings**

Total borrowings at September 30, 2014 increased \$601.03 million or 59.72% during the first nine months of 2014. Virginia Commerce added \$468.15 million, including purchase accounting amounts, upon consummation of the acquisition. Since year-end 2013, short-term borrowings increased \$43.47 million or 10.09% due to a \$156.04 million increase in short-term securities sold under agreements to repurchase, which was partially offset by a \$115 million decrease in short term FHLB advances. Federal funds purchased increased \$2.44 million or 8.80%. Long-term borrowings increased \$557.56 million or 96.85% since year-end 2013 as long-term FHLB advances increased \$453.61 million. In addition, United assumed \$53.70 million in long-term securities sold under agreements to repurchase and \$50.64 million of junior subordinated debt securities, respectively, including purchase accounting amounts, in the Virginia Commerce acquisition.

**Table of Contents**

The table below summarizes the change in the borrowing categories since year-end 2013:

<i>(Dollars in thousands)</i>	<b>September 30</b>	<b>December 31</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>2014</b>	<b>2013</b>		
Federal funds purchased	\$ 30,120	\$ 27,685	\$ 2,435	8.80%
Short-term securities sold under agreements to repurchase	344,105	188,069	156,036	82.97%
Long-term securities sold under agreements to repurchase	52,713	0	52,713	100.00%
Short-term FHLB advances	100,000	215,000	(115,000)	(53.49%)
Long-term FHLB advances	830,679	377,069	453,610	120.30%
Issuances of trust preferred capital securities	249,863	198,628	51,235	25.79%
<b>Total borrowings</b>	<b>\$ 1,607,480</b>	<b>\$ 1,006,451</b>	<b>\$ 601,029</b>	<b>59.72%</b>

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, 2014 increased \$5.75 million or 9.06% from year-end 2013. Virginia Commerce added \$11.39 million. In particular, interest payable increased \$1.14 million and other accrued expenses increased \$1.07 million. In addition, dividends payable increased \$6.00 million due to the additional shares issued in the Virginia Commerce acquisition. Partially offsetting these increases in accrued expenses and other liabilities is a \$1.40 million decrease in other taxes payable due to a timing difference in payments.

**Shareholders' Equity**

Shareholders' equity at September 30, 2014 increased \$611.94 million or 58.74% from December 31, 2013 mainly as a result of the Virginia Commerce acquisition and retention of earnings, net of dividends declared. The Virginia Commerce transaction added approximately \$552 million as 18,330,347 shares were issued from United's authorized but unissued shares for the merger at a cost of approximately \$548 million. Earnings net of dividends for the first nine months of 2014 were \$30.27 million.

Accumulated other comprehensive income increased \$19.38 million due mainly to an increase of \$14.38 million in the fair value of United's available for sale investment portfolio, net of deferred income taxes. The after tax non-credit net reclass portion of OTTI losses was \$4.07 million related predominantly to the Trup Cdo portfolio and the after-tax accretion of pension costs was \$929 thousand for the first nine months of 2014.

**RESULTS OF OPERATIONS****Overview**

Net income for the first nine months of 2014 was \$96.63 million or \$1.44 per diluted share compared to \$65.97 million or \$1.31 per share for the first nine months of 2013. Net income for the third quarter of 2014 was \$33.26 million or \$0.48 per diluted share, as compared to \$22.17 million or \$0.44 per diluted share for the prior year third quarter. United's annualized return on average assets for the first nine months of 2014 was 1.12% and return on average shareholders' equity was 8.22% as compared to 1.05% and 8.72% for the first nine months of 2013. For the third quarter of 2014, United's annualized return on average assets was 1.10% and return on average shareholders' equity was 7.96% as compared to 1.04% and 8.64% for the third quarter of 2013. United's Federal Reserve peer group's (bank holding companies with total assets over \$10 billion) most recently reported average return on assets and average return on equity were 0.93% and 8.20%, respectively, for the first half of 2014. As previously mentioned, United completed its acquisition of Virginia Commerce after the close of business on January 31, 2014. The financial results of Virginia Commerce are included in United's results from the acquisition date.

**Table of Contents**

The results for the first nine months and third quarter of 2014 included noncash, before-tax, other-than-temporary impairment charges of \$5.77 million and \$4.71 million, respectively, on certain investment securities. The results for the first nine months of 2013 included noncash, before-tax, other-than-temporary impairment charges of \$971 thousand on certain investment securities. No noncash, before-tax, other-than-temporary impairment charges were recognized during the third quarter of 2013. As previously reported, United sold a former branch building during the first quarter of 2014 which resulted in a before-tax gain of \$8.98 million. In addition, the results for the first nine months of 2014 included merger related expenses and charges of \$5.29 million as compared to \$1.56 million in the first nine months of 2013.

Net interest income for the first nine months of 2014 was \$275.15 million, an increase of \$74.50 million or 37.13% from the prior year's first nine months. The increase in net interest income occurred because total interest income increased \$78.31 million while total interest expense only increased \$3.81 million from the first nine months of 2013. Net interest income for the third quarter of 2014 was \$95.92 million, an increase of \$28.29 million or 41.83% from prior year's third quarter. The increase in net interest income occurred because total interest income increased \$30.15 million while total interest expense only increased \$1.86 million from the third quarter of 2013.

The provision for credit losses was \$15.63 million and \$4.75 million for the first nine months and third quarter of 2014, respectively, as compared to \$14.92 million and \$4.78 million for the first nine months and third quarter of 2013, respectively. Noninterest income for the first nine months of 2014 was \$61.97 million which was an increase of \$6.19 million or 11.10% from the first nine months of 2013. For the third quarter of 2014, noninterest income was \$16.32 million, which was a decrease of \$2.02 million or 11.00% from the third quarter of 2013. Included in the results for the first nine months of 2014 was the gain on the sale of the former branch building. Included in noninterest income for 2014 and 2013 were the previously mentioned other-than-temporary impairment charges on investment securities. For the first nine months of 2014, noninterest expense increased \$30.87 million or 21.23% from the first nine months of 2013. For the third quarter of 2014, noninterest expense increased \$9.26 million or 19.06% from the third quarter of 2013.

For the first nine months of 2014 and 2013, income tax expense was \$48.62 million and \$30.16 million, respectively. The effective tax rate for the first nine months of 2014 and 2013 was 33.47% and 31.38%, respectively. Income taxes for the third quarter of 2014 were \$16.38 million as compared to \$10.43 million for the third quarter of 2013. For the quarters ended September 30, 2014 and 2013, United's effective tax rate was 33.00% and 32.00%, respectively.

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

**Net Interest Income**

Net interest income represents the primary component of United's earnings. It is the difference between interest income from earning assets and interest expense incurred to fund these assets. Net interest income is impacted by changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as changes in market interest rates. Such changes, and their impact on net interest income in 2014 and 2013, are presented below.

Net interest income for the first nine months of 2014 was \$275.15 million, which was an increase of \$74.50 million or 37.13% from the first nine months of 2013. The \$74.50 million increase in net interest income occurred because total interest income increased \$78.31 million while total interest expense only increased \$3.81 million from the first nine months of 2013. Net interest income for the third quarter of 2014 was \$95.92 million, which was an increase of \$28.29 million or 41.83% from the third quarter of 2013. The \$28.29 million increase in net interest income occurred because total interest income increased \$30.15 million while total interest expense only increased \$1.86 million from the third quarter of 2013. On a linked-quarter basis, net interest income for the third quarter of 2014 increased \$1.99 million or 2.11% from the second quarter of 2014. The \$1.99 million increase in net interest income occurred because total

---

**Table of Contents**

interest income increased \$2.06 million while total interest expense only increased \$72 thousand from the second quarter of 2014. Generally, interest income for the first nine months and third quarter of 2014 increased from the first nine months and third quarter of 2013 because of the earning assets added from the Virginia Commerce acquisition. Likewise, interest expense for the first nine months and third quarter of 2014 increased from the first nine months and third quarter of 2013 because of the interest-bearing liabilities added from Virginia Commerce. However, the increase in interest expense was partially mitigated by the accretion of fair value premiums recorded on the interest-bearing deposits and long-term securities sold under agreements to repurchase acquired from Virginia Commerce. For the purpose of this remaining discussion, net interest income is presented on a tax-equivalent basis to provide a comparison among all types of interest earning assets. The tax-equivalent basis adjusts for the tax-favored status of income from certain loans and investments. Although this is a non-GAAP measure, United's management believes this measure is more widely used within the financial services industry and provides better comparability of net interest income arising from taxable and tax-exempt sources. United uses this measure to monitor net interest income performance and to manage its balance sheet composition.

Tax-equivalent net interest income for the first nine months of 2014 was \$279.94 million, an increase of \$74.76 million or 36.43% from the first nine months of 2013. This increase in tax-equivalent net interest income was primarily attributable to an increase in average earning assets from the Virginia Commerce acquisition. Average earning assets increased \$2.71 billion or 36.36% from the first nine months of 2013. Average net loans increased \$2.09 billion or 32.52% for the first nine months of 2014 while average investment securities increased \$488.49 million or 62.93%. In addition, the average cost of funds declined 11 basis points from the first nine months of 2013. In particular, the average cost of long-term borrowings declined 141 basis points due mainly to the repayment of certain higher-cost long-term FHLB borrowings. Partially offsetting the increases to tax-equivalent net interest income for the first nine months of 2014 was a decline of 9 basis points in the average yield on earning assets as compared to the first nine months of 2013. In particular, the yield on average net loans declined 4 basis points due to payoffs of higher yielding loans coupled with the re-investment of this cash inflow into new loans at lower interest rates. The net interest margin for the first nine months of 2014 was 3.69%, which was an increase of a basis point from the first nine months of 2013.

Tax-equivalent net interest income for the third quarter of 2014 was \$97.49 million, an increase of \$28.37 million or 41.04% from the third quarter of 2013. This increase in tax-equivalent net interest income was primarily attributable to an increase in average earning assets from the Virginia Commerce acquisition. Average earning assets increased \$3.04 billion or 40.32% from the third quarter of 2013. Average net loans increased \$2.41 billion or 37.17% for the third quarter of 2014 while average investment securities increased \$467.31 million or 56.89%. In addition, the average cost of funds declined 9 basis points from the third quarter of 2013. In particular, the average cost of long-term borrowings declined 100 basis points due mainly to the repayment of certain higher-cost long-term FHLB borrowings. Partially offsetting the increases to tax-equivalent net interest income for the third quarter of 2014 was a decline of 5 basis points in the average yield on earning assets as compared to the third quarter of 2013. The net interest margin for the third quarter of 2014 was 3.66%, which was an increase of a basis point from a net interest margin of 3.65% for the third quarter of 2013.

On a linked-quarter basis, United's tax-equivalent net interest income for the third quarter of 2014 increased \$1.95 million or 2.04% due mainly to an increase in average earning assets and a decrease in the average cost of funds. Average earning assets increased \$199.26 million or 1.92% during the quarter. Average net loans increased \$177.89 million or 2.04%. Average short-term investments increased \$24.78 million or 6.53% while average investment securities were flat, decreasing \$3.41 million or less than 1% for the quarter. The third quarter of 2014 average cost of funds decreased a basis point while the average yield on earning assets decreased 4 basis points from the second quarter of 2014. The net interest margin of 3.66% for the third quarter of 2014 was a decrease of 3 basis points from the net interest margin of 3.69% for the second quarter of 2014.

United's tax-equivalent net interest income also includes the impact of acquisition accounting fair value adjustments.

**Table of Contents**

The following table provides the discount/premium and net accretion impact to tax-equivalent net interest income for the three months ended September 30, 2014, September 30, 2013 and June 30, 2014 and the nine months ended September 30, 2014 and September 30, 2013:

<i>(Dollars in thousands)</i>	<b>Three Months Ended</b>		
	<b>September 30 2014</b>	<b>September 30 2013</b>	<b>June 30 2014</b>
Loan accretion	\$ 901	\$ 507	\$ 2,434
Certificates of deposit	1,111	0	1,306
Long-term borrowings	135	(28)	156
<b>Total</b>	<b>\$ 2,147</b>	<b>\$ 479</b>	<b>\$ 3,896</b>

<i>(Dollars in thousands)</i>	<b>Nine Months Ended</b>	
	<b>September 30 2014</b>	<b>September 30 2013</b>
Loan accretion	\$ 4,679	\$ 2,110
Certificates of deposit	3,396	170
Long-term borrowings	387	(84)
<b>Tax-equivalent net interest income</b>	<b>\$ 8,462</b>	<b>\$ 2,196</b>

The following tables reconcile the difference between net interest income and tax-equivalent net interest income for the three months ended September 30, 2014, September 30, 2013 and June 30, 2014 and the nine months ended September 30, 2014 and September 30, 2013.

<i>(Dollars in thousands)</i>	<b>Three Months Ended</b>		
	<b>September 30 2014</b>	<b>September 30 2013</b>	<b>June 30 2014</b>
Net interest income, GAAP basis	\$ 95,918	\$ 67,630	\$ 93,932
Tax-equivalent adjustment (1)	1,572	1,494	1,606
<b>Tax-equivalent net interest income</b>	<b>\$ 97,490</b>	<b>\$ 69,124</b>	<b>\$ 95,538</b>

<i>(Dollars in thousands)</i>	<b>Nine Months Ended</b>	
	<b>September 30 2014</b>	<b>September 30 2013</b>
Net interest income, GAAP basis	\$ 275,152	\$ 200,655
Tax-equivalent adjustment (1)	4,786	4,527
<b>Tax-equivalent net interest income</b>	<b>\$ 279,938</b>	<b>\$ 205,182</b>

- (1) The tax-equivalent adjustment combines amounts of interest income on federally nontaxable loans and investment securities using the statutory federal income tax rate of 35%. All interest income on loans and investment securities was subject to state income taxes.



**Table of Contents**

The following tables 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, 2014 and 2013, 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%. Interest income on all loans and investment securities was subject to state income taxes.

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Average Balance	Interest (1)	Avg. Rate (1)	Average Balance	Interest (1)	Avg. Rate (1)
<i>(Dollars in thousands)</i>						
<b>ASSETS</b>						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	\$ 404,113	\$ 241	0.24%	\$ 239,501	\$ 157	0.26%
Investment Securities:						
Taxable	1,169,647	7,873	2.69%	742,505	4,585	2.47%
Tax-exempt	119,095	1,336	4.49%	78,929	1,076	5.45%
Total Securities	1,288,742	9,209	2.86%	821,434	5,661	2.76%
Loans, net of unearned income (2)	8,958,574	98,979	4.39%	6,551,106	72,381	4.39%
Allowance for loan losses	(74,697)			(74,712)		
Net loans	8,883,877		4.43%	6,476,394		4.44%
Total earning assets	10,576,732	\$ 108,429	4.07%	7,537,329	\$ 78,199	4.12%
Other assets	1,391,113			908,697		
<b>TOTAL ASSETS</b>	<b>\$ 11,967,845</b>			<b>\$ 8,446,026</b>		
<b>LIABILITIES</b>						
Interest-Bearing Funds:						
Interest-bearing deposits	\$ 6,308,323	\$ 7,077	0.45%	\$ 4,792,755	\$ 6,569	0.54%
Short-term borrowings	441,184	234	0.21%	410,574	276	0.27%
Long-term borrowings	1,102,663	3,628	1.31%	383,786	2,230	2.31%
Total Interest-Bearing Funds	7,852,170	10,939	0.55%	5,587,115	9,075	0.64%
Noninterest-bearing deposits	2,409,687			1,796,258		
Accrued expenses and other liabilities	47,899			44,497		
<b>TOTAL LIABILITIES</b>	<b>10,309,756</b>			<b>7,427,870</b>		
<b>SHAREHOLDERS EQUITY</b>	<b>1,658,089</b>			<b>1,018,156</b>		
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 11,967,845</b>			<b>\$ 8,446,026</b>		
<b>NET INTEREST INCOME</b>		<b>\$ 97,490</b>			<b>\$ 69,124</b>	
<b>INTEREST SPREAD</b>			<b>3.52%</b>			<b>3.48%</b>
<b>NET INTEREST MARGIN</b>			<b>3.66%</b>			<b>3.65%</b>

(1)

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

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

**Table of Contents**

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Average Balance	Interest (1)	Avg. Rate (1)	Average Balance	Interest (1)	Avg. Rate (1)
<i>(Dollars in thousands)</i>						
<b>ASSETS</b>						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	\$ 359,020	\$ 656	0.24%	\$ 233,538	\$ 446	0.26%
Investment Securities:						
Taxable	1,147,583	21,869	2.54%	692,133	11,973	2.31%
Tax-exempt	117,144	4,049	4.61%	84,100	3,365	5.34%
Total Securities	1,264,727	25,918	2.73%	776,233	15,338	2.63%
Loans, net of unearned income (2)	8,600,695	285,032	4.43%	6,508,355	217,258	4.46%
Allowance for loan losses	(74,560)			(74,651)		
Net loans	8,526,135		4.47%	6,433,704		4.51%
Total earning assets	10,149,882	\$ 311,606	4.10%	7,443,475	\$ 233,042	4.19%
Other assets	1,339,783			923,766		
<b>TOTAL ASSETS</b>	<b>\$ 11,489,665</b>			<b>\$ 8,367,241</b>		
<b>LIABILITIES</b>						
Interest-Bearing Funds:						
Interest-bearing deposits	\$ 6,079,316	\$ 20,493	0.45%	\$ 4,846,751	\$ 20,403	0.56%
Short-term borrowings	538,074	911	0.23%	380,818	694	0.24%
Long-term borrowings	962,977	10,264	1.43%	318,187	6,763	2.84%
Total Interest-Bearing Funds	7,580,367	31,668	0.56%	5,545,756	27,860	0.67%
Non-interest bearing deposits	2,287,643			1,759,629		
Accrued expenses and other liabilities	49,425			50,509		
<b>TOTAL LIABILITIES</b>	<b>9,917,435</b>			<b>7,355,894</b>		
<b>SHAREHOLDERS EQUITY</b>	<b>1,572,230</b>			<b>1,011,347</b>		
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 11,489,665</b>			<b>\$ 8,367,241</b>		
<b>NET INTEREST INCOME</b>		<b>\$ 279,938</b>			<b>\$ 205,182</b>	
<b>INTEREST SPREAD</b>			<b>3.54%</b>			<b>3.52%</b>
<b>NET INTEREST MARGIN</b>			<b>3.69%</b>			<b>3.68%</b>

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

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

**Provision for Loan Losses**

The provision for loan losses for the first nine months of 2014 and 2013 was \$15.63 million and \$14.92 million, respectively. For the quarters ended September 30, 2014 and 2013, the provision for loan losses was \$4.75 million and \$4.78 million, respectively. Net charge-offs for the first nine months of 2014 were \$14.11 million as compared to \$14.25 million for the first nine months of 2013. Net charge-offs were \$4.00 million

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

for the third quarter of 2014 as compared to net charge-offs of \$4.78 million for the same quarter in 2013. These lower amounts of provision expense and net charge-offs for 2014 compared to 2013 were due to a decline in the rate of impairment recognition necessary for deteriorating credits. On a linked-quarter basis, the provision for loans losses decreased \$1.45 million while net

---

**Table of Contents**

charge-offs decreased \$1.56 million from the second quarter of 2014. Annualized net charge-offs as a percentage of average loans were 0.22% and 0.18% for the first nine months and third quarter of 2014, respectively. These ratios compare favorably to United's most recently reported Federal Reserve peer group banking companies (bank holding companies with total assets over \$10 billion) net charge-offs to average loans percentage of 0.30% for the second quarter of 2014.

At September 30, 2014, nonperforming loans were \$97.91 million or 1.09% of loans, net of unearned income compared to nonperforming loans of \$81.13 million or 1.21% of loans, net of unearned income at December 31, 2013. The components of nonperforming loans include: 1) nonaccrual loans, 2) loans which are contractually past due 90 days or more as to interest or principal, but have not been put on a nonaccrual basis and 3) loans whose terms have been restructured for economic or legal reasons due to financial difficulties of the borrowers.

Loans past due 90 days or more were \$16.69 million at September 30, 2014, an increase of \$5.65 million or 51.14% from \$11.04 million at year-end 2013. The increase was due mainly to an increase in past due commercial and industrial loans. At September 30, 2014, nonaccrual loans were \$67.72 million, an increase of \$5.79 million or 9.34% from \$61.93 million at year-end 2013. The increase in nonaccrual loans was primarily due to two loans to one commercial customer totaling \$5.44 million transferred to nonaccrual in the third quarter of 2014. Restructured loans were \$13.50 million at September 30, 2014 as compared to \$8.16 million restructured loans at year-end 2013. The increase was due mainly to two troubled loans to a commercial customer in the amount of \$5.63 million being restructured in the second quarter of 2014. The loss potential on these loans has been evaluated and allocated within the company's allowance for loan losses.

Nonperforming assets include nonperforming loans and real estate acquired in foreclosure or other settlement of loans (OREO). Total nonperforming assets of \$140.34 million, including OREO of \$42.43 million at September 30, 2014, represented 1.16% of total assets.

Loans are designated as impaired when, in the opinion of management, the collection of principal and interest in accordance with the loan contract is doubtful. At September 30, 2014, impaired loans were \$234.33 million, which was an increase of \$141.67 million or 152.89% from the \$92.66 million in impaired loans at December 31, 2013. This increase in impaired loans was due mainly to loans from the Virginia Commerce acquisition with evidence of credit quality deterioration with a balance of \$138.75 million at September 30, 2014.

United maintains an allowance for loan losses and a reserve for lending-related commitments. The combined allowance for loan losses and reserve for lending-related commitments are referred to as the allowance for credit losses. At September 30, 2014, the allowance for credit losses was \$77.20 million which was comparable to \$76.34 million at December 31, 2013.

At September 30, 2014, the allowance for loan losses was \$75.72 million as compared to \$74.20 million at December 31, 2013. As a percentage of loans, net of unearned income, the allowance for loan losses was 0.84% at September 30, 2014 and 1.11% at December 31, 2013. For United, this ratio at September 30, 2014 decreased from the ratio at December 31, 2013 mainly because United was unable to carry-over Virginia Commerce's previously established allowance for loan losses because acquired loans are recorded at fair value in accordance with accounting rules. Therefore, United recorded a downward fair value adjustment of approximately \$90.4 million on the loans acquired from Virginia Commerce. The ratio of the allowance for loan losses to nonperforming loans or coverage ratio was 77.34% and 91.46% at September 30, 2014 and December 31, 2013, respectively. This ratio declined because nonperforming loans increased \$16.78 million or 20.68% while the allowance for loan losses only increased \$1.52 million or 2.05% from year-end 2013. Adjustments to risk grades within the allowance for loan loss analysis were based on delinquency and loss trends of such loans and resulted in increased allowance allocations of \$1.39 million or 1.87%. This increase in allocations coincided with the increase of provision for losses in the third quarter. There was also a slight increase in the estimate for imprecision. The Company's detailed methodology and analysis indicated a

## **Table of Contents**

minimal increase in the allowance for loan losses primarily because of the offsetting factors of changes within historical loss rates and reduced loss allocations on impaired loans.

Allocations are made for specific commercial loans based upon management's estimate of the borrowers' ability to repay and other factors impacting collectibility. Other commercial loans not specifically reviewed on an individual basis are evaluated based on historical loss percentages applied to loan pools that have been segregated by risk. Allocations for loans other than commercial loans are made based upon historical loss experience adjusted for current environmental conditions. The allowance for credit losses includes estimated probable inherent but unidentified losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet fully manifested themselves in loss allocation factors. In addition, a portion of the allowance accounts for the inherent imprecision in the allowance for credit losses analysis.

United's formal company-wide review of the allowance for loan losses at September 30, 2014 produced increased allocations in three of the six loan categories. The other commercial loan pool allocation increased by \$5.44 million due to an increase in impairment recognition and an increase in classified loans within the portfolio. The allowance allocated to real estate construction and development loan pool increased by \$608 thousand due to an increase in portfolio outstandings. The consumer loan pool also experienced an increase of \$195 thousand due to an increase in portfolio outstandings. Offsetting these increases was a decrease in the allocation related to the residential real estate loan pool of \$2.85 million due to a decrease in historical loss rates applied to the portfolio in addition to a decrease in specific impairments within the commercial portfolio. The commercial real estate owner-occupied loan pool allocation decreased by \$1.28 million primarily due to a decrease in criticized loans within the portfolio. The commercial real estate nonowner-occupied loan pool allocation decreased \$724 thousand due to a decline in specific impairments recognized within the portfolio. In summary, the overall level of the allowance for loan losses was relatively stable in comparison to year-end 2013 as a result of offsetting factors within the portfolio as described above.

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 Company 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 \$11.97 million at September 30, 2014 and \$12.48 million at December 31, 2013. In comparison to the prior year-end, this element of the allowance decreased by \$511 thousand due to offsetting factors of increased specific allocations for other commercial loans and decreased specific allocations for the nonowner-occupied commercial real estate and the residential real estate loan pools.

Management believes that the allowance for credit losses of \$77.20 million at September 30, 2014 is adequate to provide for probable losses on existing loans and lending-related commitments based on information currently available. Note 6 to the accompanying unaudited Notes to Consolidated Financial Statements provides a progression of the allowance for loan losses by portfolio segment.

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, Pennsylvania, Virginia, Maryland and the District of Columbia. It is the

**Table of Contents**

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 \$61.97 million for the first nine months of 2014 which was an increase of \$6.19 million or 11.10% from the first nine months of 2013. For the third quarter of 2014, noninterest income was \$16.32 million, which was a decrease of \$2.02 million or 11.00% from the third quarter of 2013.

Included in noninterest income for the first nine months of 2014 was the previously mentioned net gain of \$8.98 million on the sale of bank premises as well as noncash, before-tax, other-than-temporary impairment charges of \$5.77 million on certain investment securities as compared to noncash, before-tax other-than-temporary impairment charges of \$971 thousand on certain investment securities for the first nine months of 2013. In addition, net gains on sales and calls of investment securities were \$2.13 million and \$589 thousand for the first nine months of 2014 and 2013, respectively. Excluding the net gain on the sale of bank premises, the noncash, other-than-temporary impairment charges as well as net gains and losses from sales and calls of investment securities, noninterest income for the first nine months of 2014 was flat, increasing \$474 thousand or less than 1% from the first nine months of 2013. For the third quarter of 2014, net losses on investment securities transactions were \$3.41 million as compared to net gains of \$101 thousand for the third quarter of 2013. Included in net losses on investment securities transactions for the third quarter of 2014 were before-tax other-than-temporary impairment charges of \$4.71 million on certain investment securities. No noncash, before-tax, other-than-temporary impairment charges were recognized during the third quarter of 2013. In addition, net gains on sales and calls of investment securities were \$1.31 million and \$101 thousand for the third quarter of 2014 and 2013, respectively. Excluding the results of security transactions, noninterest income for the third quarter of 2014 would have increased \$1.49 million or 8.17% from the third quarter of 2013. Although excluding the net gain on the sale of bank premises and the results of security transactions is a non-GAAP measure, United's management believes noninterest income without the net gain on the sale of bank premises and noncash, before-tax, other-than-temporary impairment charges as well as net securities gains and losses on sales and calls is more indicative of United's performance because it isolates income that is primarily customer relationship driven and is more indicative of normalized operations. In addition, these items can fluctuate greatly from quarter to quarter or could be infrequent and are thus difficult to predict.

The following table reconciles the difference between noninterest income and noninterest income excluding the results of security transactions for the three months ended September 30, 2014, September 30, 2013, and June 30, 2014 and the nine months ended September 30, 2014 and September 30, 2013.

	Three Months Ended		
	September 30 2014	September 30 2013	June 30 2014
<i>(Dollars in thousands)</i>			
Total Non-Interest Income, GAAP basis	\$ 16,319	\$ 18,335	\$ 19,135
Less: Net other-than-temporary impairment losses	(4,714)	0	(421)
Less: Net gains on sales/calls of investment securities	1,309	101	1
Non-Interest Income excluding the results of noncash, other than-temporary impairment charges and net gains and losses from sales and calls of investment securities	\$ 19,724	\$ 18,234	\$ 19,555

**Table of Contents**

(Dollars in thousands)	Nine Months Ended	
	September 30 2014	September 30 2013
Total Non-Interest Income, GAAP basis	\$ 61,974	\$ 55,782
Less: Net gain on the sale of bank premises	8,976	0
Less: Net other-than-temporary impairment losses	(5,774)	(971)
Less: Net gains on sales/calls of investment securities	2,134	589
<b>Non-Interest Income excluding the results of noncash, other than-temporary impairment charges and net gains and losses from sales and calls of investment securities</b>	<b>\$ 56,638</b>	<b>\$ 56,164</b>

Revenue from trust income and brokerage commissions for the first nine months and third quarter of 2014 increased \$1.50 million or 12.31% and \$468 thousand or 11.68%, respectively, due mainly to an increase in brokerage volume and an increase in the value of trust assets under management. Revenue from trust and brokerage services was \$13.71 million and \$4.47 million for the first nine months and third quarter of 2014, respectively, as compared to \$12.21 million and \$4.01 million for the first nine months and third quarter of 2013, respectively.

Fees from deposit services for the first nine months of 2014 were \$31.60 million, an increase of \$1.42 million or 4.71% from the first nine months of 2013. In particular, debit card and ATM income increased \$1.00 million and \$495 thousand, respectively, during the first nine months of 2014. Partially offsetting these increases was a decrease in overdraft fees of \$359 thousand for the first nine months of 2014. For the third quarter of 2014, fees from deposit services were \$11.13 million, an increase of \$793 thousand or 7.67% from the third quarter of 2013. In particular, debit card and ATM income increased \$444 thousand and \$96 thousand, respectively.

Income from bank-owned life insurance decreased \$691 thousand or 14.66% for the first nine months as compared to the first nine months of 2013. The decrease was due to proceeds received from large death benefits in the first quarter of 2013. Income from bank-owned life insurance increased \$187 thousand or 16.43% for the third quarter of 2014 as compared to the third quarter of 2013 due to an increase in the cash surrender values.

Mortgage banking income decreased \$838 thousand or 36.29% for the first nine months of 2014 as compared to the first nine months of 2013. This decrease was due primarily to decreased mortgage loan sales in the secondary market. Mortgage loan sales were \$69.92 million in the first nine months of 2014 as compared to \$135.18 million in the first nine months of 2013. Mortgage banking income increased \$169 thousand or 27.93% for the third quarter of 2014 as compared to the third quarter of 2013. This increase was due primarily to increased mortgage loan sales in the secondary market. Mortgage loan sales were \$31.77 million in the third quarter of 2014 as compared to \$38.65 million in the third quarter of 2013.

Other income decreased \$951 thousand or 41.73% for the first nine months of 2014. This decrease in other income is due mainly to a decrease of \$753 thousand from derivatives not in a hedging relationship as a result of a change in value. A corresponding amount of expense from derivatives not in a hedging relationship is included in other expense in the income statement. For the third quarter of 2014, other income decreased \$138 thousand or 25.46% due mainly to a decrease of \$112 thousand in loan referral fees.

On a linked-quarter basis, noninterest income for the third quarter of 2014 decreased \$2.82 million from the second quarter of 2014. Included in the results for the third quarter and second quarter of 2014 were noncash, before-tax, other-than-temporary impairment charges of \$4.71 million and \$421 thousand, respectively. In addition, the results for the third quarter of 2014 included net gains on sales and calls of investment securities of \$1.31 million. Excluding the noncash, other-than-temporary impairment charges as well as net gains from sales and calls of investment securities, noninterest income was flat on a linked-quarter basis. Increases in fees from deposit services of \$232 thousand as a result of increases in overdraft fees and mortgage banking income of \$336 thousand due to increased sales in the secondary market were mostly offset by declines in income from trust and brokerage services of \$167 thousand due to



---

**Table of Contents**

decreased volume and the timing of annual and one-time service fees and income from bank-owned insurance policies of \$120 thousand due to a decline in the cash surrender value.

**Other Expenses**

Just as management continues to evaluate areas where noninterest income can be enhanced, it strives to improve the efficiency of its operations to reduce costs. Other expenses include all items of expense other than interest expense, the provision for loan losses, and income taxes. For the first nine months of 2014, noninterest expense increased \$30.87 million or 21.23% from the first nine months of 2013. Noninterest expense increased \$9.26 million or 19.06% for the third quarter of 2014 compared to the same period in 2013. These increases are mainly due to the Virginia Commerce acquisition in the first quarter of 2014.

Employee compensation increased \$17.90 million or 35.21% for the first nine months of 2014 when compared to the first nine months of 2013. Included in employee compensation for the first nine months of 2014 were merger severance charges of \$3.64 million. Employee compensation for the third quarter of 2014 increased \$4.90 million or 28.40% from the third quarter of 2013. The increases were due mainly to the additional employees from the Virginia Commerce acquisition.

Employee benefits expense for the first nine months of 2014 decreased \$1.94 million or 11.10% as compared to the first nine months of 2013. Employee benefits expense for the third quarter of 2014 decreased \$1.09 million or 18.64% from the third quarter of 2013. Specifically within employee benefits expense, pension expense decreased \$4.35 million and \$1.56 million for the first nine months and third quarter of 2014, respectively, from the same periods last year as a result of a change in the discount rate used in the valuation process at year-end 2013 which more than offset the additional expense from the increased number of employees from the Virginia Commerce acquisition. Health insurance costs increased \$1.07 million and \$161 thousand for the first nine months and third quarter of 2014, respectively, from the first nine months and third quarter of 2013. FICA expense increased \$948 thousand and \$233 thousand for the first nine months and third quarter of 2014, respectively, as compared to the same periods last year.

Net occupancy expense for the first nine months and third quarter of 2014 increased \$4.41 million or 29.49% and \$1.47 million or 29.79%, respectively, from the first nine months and third quarter of 2013. In particular, building rental expense increased \$2.77 million and \$1.00 million for the first nine months and third quarter of 2014, respectively. In addition, building maintenance and building depreciation increased \$620 thousand and \$505 thousand for the first nine months of 2014 and 2013, respectively, and \$153 thousand and \$195 thousand for the third quarter of 2014 and 2013, respectively. These increases were due mainly the additional offices acquired from Virginia Commerce.

Equipment expense for the first nine months of 2014 increased \$1.15 million or 21.38% from the first nine months of 2013. Equipment expense for the third quarter of 2014 increased \$416 thousand or 21.22% from the third quarter of 2013. The increases were due mainly to increases in equipment maintenance and depreciation as a result of the Virginia Commerce acquisition.

Data processing expense increased \$2.19 million or 25.96% and \$905 thousand or 31.42% for the first nine months and third quarter of 2014, respectively, as compared to the same periods in prior year due to the additional processing as a result of the Virginia Commerce acquisition.

Federal Deposit Insurance Corporation (FDIC) insurance expense for the first nine months and third quarter of 2014 increased \$897 thousand or 19.24% and \$442 thousand or 28.72%, respectively, from the first nine months and third quarter of 2013. These increases were due to a higher assessment base as a result of the Virginia Commerce acquisition.

---

**Table of Contents**

Other expense for the first nine months and third quarter of 2014 increased \$6.41 million or 17.09% and \$1.91 million or 15.56% from the first nine months and second quarter of 2013, respectively. Generally, these increases were due mainly to an increase in general operating expenses as a result of the Virginia Commerce acquisition. In particular, business franchise taxes for the first nine months and third quarter of 2014 increased \$2.00 million and \$702 thousand, respectively, from the same time periods last year. Other increases for the first nine months and third quarter of 2014, respectively, included ATM processing expenses of \$1.15 million and \$317 thousand, amortization on core deposit intangibles of \$1.45 million and \$576 thousand, and advertising expenses of \$855 thousand and \$642 thousand.

On a linked-quarter basis, noninterest expense for the third quarter of 2014 increased \$603 thousand or 1.05% from the second quarter of 2014. This increase was due primarily to increases of \$781 thousand and \$627 thousand in other real estate owned (OREO) expense due to declines in the fair values of OREO properties and employee compensation due to increased commissions, respectively. Partially offsetting these increases was a decrease of \$437 thousand in employee benefits expense due to a decrease in health insurance costs.

**Income Taxes**

Income tax expense for the first nine months of 2014 and 2013 was \$48.62 million and \$30.16 million, respectively. For the first nine months of 2014 and 2013, United's effective tax rate was 33.47% and 31.38%, respectively. Income taxes for the third quarter of 2014 were \$16.38 million as compared to \$10.43 million for the third quarter of 2013. For the quarters ended September 30, 2014 and 2013, United's effective tax rate was 33.00% and 32.00%, respectively. The effective tax rate for the first nine months was increased by 1% as a direct result of the Virginia Commerce acquisition. The remaining increase was due to the adjustment in the deferred tax rate related to a reduction in the State of West Virginia corporate income tax rate as well as a change in apportionment factors. Going forward, United expects its effective tax rate to be 33% on remaining future earnings in 2014. For further details related to income taxes, see Note 15 of the unaudited Notes to Consolidated Financial Statements contained within this document.

**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, 2013 for disclosures with respect to United's fixed and determinable contractual obligations. As previously mentioned, United completed its acquisition of Virginia Commerce during the first quarter of 2014. As such, United assumed the financial obligations of Virginia Commerce, including contractual obligations and commitments, which also may require future payments. Otherwise, there have been no material changes outside the ordinary course of business since year-end 2013 in the specified contractual obligations disclosed in United's Annual Report on Form 10-K.

As of September 30, 2014, United recorded a liability for uncertain tax positions, including interest and penalties, of \$3.45 million in accordance with ASC topic 740. 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 in the 2013 Form 10-K report.

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. Because the derivative contracts recorded on the balance sheet at September 30, 2014 do not present the amounts that may ultimately be paid under these contracts, they are excluded from the contractual obligations table in the 2013 Form 10-K report. Further discussion of derivative instruments is presented in Note 11 to the unaudited Notes to Consolidated Financial Statements.

---

## **Table of Contents**

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

### **Liquidity**

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

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

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

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

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

For the nine months ended September 30, 2014, cash of \$99.50 million was provided by operating activities due mainly to net income of \$96.63 million for the first nine months of 2014. Net cash of \$115.60 million was used in investing activities which was primarily due to loan growth of \$308.23 million. Partially offsetting this use of cash was net cash of \$97.30 million received in the Virginia Commerce acquisition and net proceeds of \$81.27 million from the sales, calls, redemptions and maturities of investment securities over purchases. During the first nine months of 2014, net cash of \$190.76 million was provided by financing activities due primarily to net proceeds of \$353.61 million from long-term FHLB borrowings and growth of \$110.11 million in deposits. Partially offsetting these increases was a decrease in short-term borrowings of \$220.35 million. An additional use of cash for financing activities was the payment of cash dividends in the amount of \$60.35 million for the first nine months of 2014. The net effect of the cash flow activities was an increase in cash and cash equivalents of \$174.65 million for the first nine

**Table of Contents**

months of 2014.

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 lines 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 13.39% at September 30, 2014 and 13.71% at December 31, 2013, were both significantly higher than the minimum regulatory requirements. United's Tier I capital and leverage ratios of 12.49% and 10.57%, respectively, at September 30, 2014, are also well above regulatory minimum requirements. United's Tier I capital and leverage ratios at December 31, 2013 were 12.51% and 10.72%, respectively.

Total shareholders' equity was \$1.65 billion at September 30, 2014, increasing \$611.94 million or 58.74% from December 31, 2013 primarily due to the Virginia Commerce acquisition and the retention of earnings. United's equity to assets ratio was 13.68% at September 30, 2014 as compared to 11.93% at December 31, 2013. The primary capital ratio, capital and reserves to total assets and reserves, was 14.23% at September 30, 2014 as compared to 12.69% at December 31, 2013. United's average equity to average asset ratio was 13.68% for the first nine months of 2014 as compared to 12.09% for the first nine months of 2013. All of these financial measurements reflect a financially sound position.

During the third quarter of 2014, United's Board of Directors declared a cash dividend of \$0.32 per share. Cash dividends were \$0.96 per common share for the first nine months of 2014. Total cash dividends declared were \$22.14 million for the third quarter of 2014 and \$66.36 million for the first nine months of 2014 as compared to \$15.62 million and \$46.84 million, respectively, for the third quarter and first nine months of 2013. The increase was due mainly to the additional shares issued in the Virginia Commerce acquisition as well as the increase in the cash dividend amount per share.

**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

**Table of Contents**

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 managing interest rate risk 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, 2014 and December 31, 2013:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income	
	September 30, 2014	December 31, 2013
+200	(0.47%)	2.01%
+100	(0.74%)	0.21%
-100	1.98%	(0.80%)

At September 30, 2014, 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 decrease by 0.74% over one year as compared to an increase of 0.21% at December 31, 2013. A 200 basis point immediate, sustained upward shock in the yield curve would decrease net interest income by an estimated 0.47% over one year as of September 30, 2014, as compared to an increase of 2.01% as of December 31, 2013. A 100 basis point immediate, sustained downward shock in the yield curve would increase net interest income by an estimated 1.98% over one year as of September 30, 2014 as compared to a decrease of 0.80%, over one year as of December 31, 2013. With the federal funds rate at 0.25% at September 30, 2014 and December 31, 2013, management believed a 200 basis point immediate, sustained decline in rates was highly unlikely.

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.

**Table of Contents**

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 ASC topic 815, Derivatives and Hedging.

**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 declines. 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, 2014, United's mortgage related securities portfolio had an amortized cost of \$863 million, of which approximately \$474 million or 55% were fixed rate collateralized mortgage obligations (CMOs). These fixed rate CMOs consisted primarily of planned amortization class (PACs), sequential-pay and accretion directed (VADMs) bonds having an average life of approximately 4.6 years and a weighted average yield of 2.68%, under current projected prepayment assumptions. These securities are expected to have very little extension risk in a rising rate environment. Current models show that an immediate, sustained upward shock of 300 basis points, the average life of these securities would only extend to 5.6 years. The projected price decline of the fixed rate CMO portfolio in rates up 300 basis points would be 13.1%, less than the price decline of a 7 year treasury note. By comparison, the price decline of a 30-year current coupon mortgage backed security (MBS) for an immediate, sustained upward shock of 300 basis points would be approximately 16.9%.

United had approximately \$269 million in balloon securities with a projected yield of 1.94% and a projected average life of 5.5 years on September 30, 2014. This portfolio consisted primarily of Fannie Mae Delegated Underwriting and Servicing (DUS) mortgage backed securities (MBS) with a weighted average loan age (WALA) of 1.5 years and a weighted average maturity (WAM) of 5.9 years.

United had approximately \$29 million in 15-year mortgage backed securities with a projected yield of 3.26% and a projected average life of 2.9 years as of September 30, 2014. This portfolio consisted of seasoned 15-year mortgage paper with a weighted average loan age (WALA) of 6.1 years and a weighted average maturity (WAM) of 8.5 years.

United had approximately \$45 million in 20-year mortgage backed securities with a projected yield of 2.89% and a projected average life of 5.4 years on September 30, 2014. This portfolio consisted of seasoned 20-year mortgage paper with a weighted average loan age (WALA) of 2.6 years and a weighted average maturity (WAM) of 17.3 years.

United had approximately \$20 million in 30-year mortgage backed securities with a projected yield of 3.33% and a

**Table of Contents**

projected average life of 5.2 years on September 30, 2014. This portfolio consisted of seasoned 30-year mortgage paper with a weighted average loan age (WALA) of 5.8 years and a weighted average maturity (WAM) of 23.6 years.

The remaining 3% of the mortgage related securities portfolio at September 30, 2014, included adjustable rate securities (ARMs), 10-year mortgage backed pass-through securities and other fixed rate mortgage backed securities.

**Item 4. CONTROLS AND PROCEDURES**

As of September 30, 2014, 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, 2014 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, 2014, or in other factors that have materially affected or are reasonably likely to materially affect United's internal control over financial reporting.

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

United and its subsidiaries are currently involved in various legal proceedings in the normal course of business. 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, 2013 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, 2013.

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

There have been no United equity securities sales during the quarter ended September 30, 2014 that were not registered. The table below includes certain information regarding United's purchase of its common shares during the quarter ended September 30, 2014:

Period	Total Number of Shares Purchased (1) (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (3)	Maximum Number of Shares that May Yet be Purchased Under the Plans (3)
7/01 - 7/31/2014	0	\$ 00.00	0	322,200
8/01 - 8/31/2014	6	\$ 33.12	0	322,200
9/01 - 9/30/2014	0	\$ 00.00	0	322,200
Total	6	\$ 33.12	0	

- (1) Includes shares exchanged in connection with the exercise of stock options under United's stock option plans. Shares are purchased pursuant to the terms of the applicable stock option plan and not pursuant to a publicly announced stock repurchase plan. For the quarter ended September 30, 2014, no shares were exchanged by participants in United's stock option plans.
- (2) Includes shares purchased in open market transactions by United for a rabbi trust to provide payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries. For the quarter ended September 30, 2014, the following shares were purchased for the deferred compensation plan: August 2014 - 6 shares at an average price of \$33.12.
- (3) In May of 2006, United's Board of Directors approved a repurchase plan to repurchase up to 1.7 million shares of United's common stock on the open market (the 2006 Plan). The timing, price and quantity of purchases under the plan are at the discretion of management and the plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.



**Table of Contents**

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

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 2.1	Agreement and Plan of Reorganization with Virginia Commerce Bancorp, Inc.
Exhibit 2.2	Supplement for Merger Sub Accession to Agreement and Plan of Reorganization.
Exhibit 3.1	Articles of Incorporation
Exhibit 3.2	Bylaws
Exhibit 10.1	Form of Consulting Agreement by and between Peter A. Converse and United Bank
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
Exhibit 101	Interactive data file (XBRL)

**Table of Contents**

**SIGNATURES**

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

UNITED BANKSHARES, INC.

(Registrant)

Date: November 10, 2014

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

Date: November 10, 2014

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

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>	<b>Page Number</b>
2.1	Agreement and Plan of Reorganization with Virginia Commerce Bancorp, Inc.	(a)
2.2	Supplement for Merger Sub Accession to Agreement and Plan of Reorganization	(b)
3.1	Articles of Incorporation	(c)
3.2	Bylaws	(d)
10.1	Form of Consulting Agreement by and between Peter A. Converse and United Bank	(e)
31.1	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer	87
31.2	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer	88
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	89
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	90
101	Interactive data file (XBRL)	(f)

**Footnotes:**

- \* Furnished not filed.
- (a) Incorporated into this filing by reference to Exhibit 2.1 to the Form 8-K dated January 29, 2013 and filed January 31, 2013 for United Bankshares, Inc., File No. 0-13322.
- (b) Incorporated into this filing by reference to Exhibit 2.1 to the Form S-4/A dated July 18, 2013 and filed July 18, 2013 for United Bankshares, Inc., File No. 0-13322.
- (c) Incorporated into this filing by reference to a Current Report on Form 8-K dated December 23, 2008 and filed December 31, 2008 for United Bankshares, Inc., File No. 0-13322.
- (d) Incorporated into this filing by reference to a Current Report on Form 8-K dated January 25, 2010 and filed January 29, 2010 for United Bankshares, Inc., File No.0-13322.
- (e) Incorporated into this filing by reference to a Current Report on Form 8-K dated January 31, 2014 and filed February 3, 2014 for United Bankshares, Inc., File No.0-13322.
- (f) The interactive data file (XBRL) exhibit is available through United s corporate website at [www.ubsi-inc.com](http://www.ubsi-inc.com).