

UNITED BANKSHARES INC/WV

Form 10-Q

August 07, 2009

Table of Contents

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

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2009**

or

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

**Commission File Number: 0-13322
United Bankshares, Inc.**

(Exact name of registrant as specified in its charter)

West Virginia

55-0641179

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

**300 United Center
500 Virginia Street, East
Charleston, West Virginia**

25301

(Address of Principal Executive Offices)

Zip Code

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange 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; **43,412,345** shares outstanding as of **July 31, 2009**.

UNITED BANKSHARES, INC. AND SUBSIDIARIES
FORM 10-Q
TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets (Unaudited) June 30, 2009 and December 31, 2008</u>	4
<u>Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2009 and 2008</u>	5
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the Six Months Ended June 30, 2009</u>	7
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2009 and 2008</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	54
<u>Item 4. Controls and Procedures</u>	57
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	58
<u>Item 1A. Risk Factors</u>	58
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
<u>Item 3. Defaults Upon Senior Securities</u>	59
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	59
<u>Item 5. Other Information</u>	60
<u>Item 6. Exhibits</u>	60
<u>Signatures</u>	61
<u>Exhibits Index</u>	62
<u>EX-31.1</u>	

EX-31.2

EX-32.1

EX-32.2

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

The June 30, 2009 and December 31, 2008, consolidated balance sheets of United Bankshares, Inc. and Subsidiaries (United or the Company), consolidated statements of income for the three and six months ended June 30, 2009 and 2008, the related consolidated statement of changes in shareholders' equity for the six months ended June 30, 2009, the related condensed consolidated statements of cash flows for the six months ended June 30, 2009 and 2008, and the notes to consolidated financial statements appear on the following pages.

3

Table of Contents**CONSOLIDATED BALANCE SHEETS**

UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except par value)	June 30 2009 (Unaudited)	December 31 2008 (Note 1)
Assets		
Cash and due from banks	\$ 166,911	\$ 190,895
Interest-bearing deposits with other banks	14,778	14,187
Federal funds sold	20,210	8,452
Total cash and cash equivalents	201,899	213,534
Securities available for sale at estimated fair value (amortized cost-\$1,018,705 at June 30, 2009 and \$1,165,116 at December 31, 2008)	958,362	1,097,043
Securities held to maturity (estimated fair value-\$86,696 at June 30, 2009 and \$103,505 at December 31, 2008)	102,168	116,407
Other investment securities	77,695	78,372
Loans held for sale	12,191	868
Loans	5,895,222	6,020,558
Less: Unearned income	(5,066)	(6,403)
Loans net of unearned income	5,890,156	6,014,155
Less: Allowance for loan losses	(64,222)	(61,494)
Net loans	5,825,934	5,952,661
Bank premises and equipment	58,483	58,560
Goodwill	312,140	312,263
Accrued interest receivable	28,069	31,816
Other assets	270,575	240,567
TOTAL ASSETS	\$ 7,847,516	\$ 8,102,091
Liabilities		
Deposits:		
Noninterest-bearing	\$ 1,066,205	\$ 906,099
Interest-bearing	4,669,705	4,741,855
Total deposits	5,735,910	5,647,954
Borrowings:		
Federal funds purchased	112,115	128,185
Securities sold under agreements to repurchase	311,042	434,425
Federal Home Loan Bank borrowings	667,378	879,538
Other short-term borrowings	3,785	3,710
Other long-term borrowings	184,934	185,147
Allowance for lending-related commitments	2,312	2,109
Accrued expenses and other liabilities	73,657	84,311

TOTAL LIABILITIES	7,091,133	7,365,379
Shareholders Equity		
Preferred stock, \$1.00 par value; Authorized-50,000,000 shares, none issued		
Common stock, \$2.50 par value; Authorized-100,000,000 shares; issued-44,319,157 and 44,320,832 at June 30, 2009 and December 31, 2008, respectively, including 906,733 and 916,941 shares in treasury at June 30, 2009 and December 31, 2008, respectively	110,798	110,802
Surplus	96,038	96,654
Retained earnings	649,748	637,152
Accumulated other comprehensive loss	(69,376)	(76,151)
Treasury stock, at cost	(30,825)	(31,745)
TOTAL SHAREHOLDERS EQUITY	756,383	736,712
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 7,847,516	\$ 8,102,091

See notes to consolidated unaudited financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
(Dollars in thousands, except per share data)				
Interest income				
Interest and fees on loans	\$ 77,902	\$ 88,405	\$ 156,487	\$ 183,266
Interest on federal funds sold and other short-term investments	9	220	46	492
Interest and dividends on securities:				
Taxable	12,307	14,868	26,105	30,021
Tax-exempt	2,314	2,926	4,599	6,186
Total interest income	92,532	106,419	187,237	219,965
Interest expense				
Interest on deposits	20,924	30,183	45,158	65,312
Interest on short-term borrowings	96	3,750	341	10,580
Interest on long-term borrowings	9,303	9,334	18,612	18,643
Total interest expense	30,323	43,267	64,111	94,535
Net interest income	62,209	63,152	123,126	125,430
Provision for credit losses	23,251	4,351	31,279	6,451
Net interest income after provision for credit losses	38,958	58,801	91,847	118,979
Other income				
Fees from trust and brokerage services	3,506	4,553	7,100	8,492
Fees from deposit services	10,255	10,002	19,558	19,085
Bankcard fees and merchant discounts	1,058	1,734	1,981	3,292
Other service charges, commissions, and fees	526	589	977	1,077
Income from bank-owned life insurance	1,340	1,012	1,238	2,321
Income from mortgage banking	167	156	304	249
Other income	2,293	1,183	3,308	2,368
Total other-than-temporary impairment losses	(1,137)	(56)	(1,232)	(113)
Portion of loss recognized in other comprehensive income				
Net other-than-temporary impairment losses	(1,137)	(56)	(1,232)	(113)
Net (losses) gains on sales/calls of investment securities	(158)	10	6	1,022
Net investment securities (losses) gains	(1,295)	(46)	(1,226)	909
Total other income	17,850	19,183	33,240	37,793
Other expense				
Employee compensation	14,751	15,534	29,698	30,978
Employee benefits	4,734	3,407	9,623	6,991
Net occupancy expense	4,154	3,974	8,706	8,271
Equipment expense	2,255	2,488	5,020	4,282

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

Data processing expense	2,639	2,397	5,282	5,200
Bankcard processing expense	840	1,469	1,588	2,818
FDIC insurance expense	4,284	151	4,867	305
Other expense	12,041	12,057	22,728	23,990
Total other expense	45,698	41,477	87,512	82,835
Income before income taxes	11,110	36,507	37,575	73,937
Income taxes	2,954	11,360	(214)	23,094
Net income	\$ 8,156	\$ 25,147	\$ 37,789	\$ 50,843

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

<i>(Dollars in thousands, except per share data)</i>	Three Months Ended June 30		Three Months Ended June 30	
	2009	2008	2009	2008
Earnings per common share:				
Basic	\$ 0.19	\$ 0.58	\$ 0.87	\$ 1.18
Diluted	\$ 0.19	\$ 0.58	\$ 0.87	\$ 1.17
Dividends per common share	\$ 0.29	\$ 0.29	\$ 0.58	\$ 0.58
Average outstanding shares:				
Basic	43,396,901	43,264,809	43,402,034	43,255,830
Diluted	43,463,108	43,419,616	43,464,674	43,419,276

See notes to consolidated unaudited financial statements.

Table of Contents**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)**

UNITED BANKSHARES, INC. AND SUBSIDIARIES

(Dollars in thousands, except per share data)

	Six Months Ended June 30, 2009						
	Common Stock Par			Retained	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders Equity
	Shares	Value	Surplus	Earnings			
Balance at January 1, 2009	44,320,832	\$ 110,802	\$ 96,654	\$ 637,152	(\$76,151)	(\$31,745)	\$ 736,712
Comprehensive income:							
Net income				37,789			37,789
Other comprehensive income, net of tax:					6,775		6,775
Total comprehensive income, net of tax							44,564
Stock based compensation expense			273				273
Purchase of treasury stock (50,375 shares)						(847)	(847)
Distribution of treasury stock for deferred compensation plan (20,595 shares)						380	380
Cash dividends (\$0.58 per share)				(25,193)			(25,193)
Common stock options exercised (39,988 shares)			(893)			1,387	494
Fractional shares adjustment	(1,675)	(4)	4				
Balance at June 30, 2009	44,319,157	\$ 110,798	\$ 96,038	\$ 649,748	(\$69,376)	(\$30,825)	\$ 756,383

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)

	Six Months Ended	
	June 30	
	2009	2008
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 23,727	\$ 50,032
INVESTING ACTIVITIES		
Proceeds from maturities and calls of securities held to maturity	14,030	17,533
Proceeds from sales of securities available for sale	796	536
Proceeds from maturities and calls of securities available for sale	179,321	336,025
Purchases of securities available for sale	(34,091)	(376,577)
Net purchases of bank premises and equipment	(2,814)	(768)
Net change in other investment securities	(137)	(294)
Net change in loans	96,149	(51,677)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	253,254	(75,222)
FINANCING ACTIVITIES		
Cash dividends paid	(25,184)	(25,081)
Excess tax benefits from stock-based compensation arrangements	168	315
Acquisition of treasury stock	(847)	(7)
Proceeds from exercise of stock options	449	408
Proceeds from issuance of long-term Federal Home Loan Bank borrowings		200,000
Repayment of long-term Federal Home Loan Bank borrowings	(160)	(60,164)
Redemption of debt related to trust preferred securities		(10,310)
Distribution of treasury stock for deferred compensation plan	380	6
Changes in:		
Deposits	87,956	123,622
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	(351,378)	(207,000)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(288,616)	21,789
Decrease in cash and cash equivalents	(11,635)	(3,401)
Cash and cash equivalents at beginning of year	213,534	230,651
Cash and cash equivalents at end of period	\$ 201,899	\$ 227,250

See notes to consolidated unaudited financial statements.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)****UNITED BANKSHARES, INC. AND SUBSIDIARIES****1. GENERAL**

The accompanying unaudited consolidated interim financial statements of United Bankshares, Inc. and Subsidiaries (United) have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not contain all of the information and footnotes required by accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Actual results could differ from those estimates. The financial statements presented as of June 30, 2009 and 2008 and for the three-month and six-month periods then ended have not been audited. The consolidated balance sheet as of December 31, 2008 has been extracted from the audited financial statements included in United s 2008 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 2008 Annual Report of United on Form 10-K. In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim periods have been made. Such adjustments are of a normal and recurring nature.

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

New Accounting Standards

On June 29, 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168 (SFAS 168), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which replaces FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS 168 states that the FASB Accounting Standards Codification will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by all nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also source of authoritative GAAP for SEC registrants. SFAS 168 is effective for financial statements issued for interim and annual periods after September 15, 2009. On the effective date, the Codification will supersede all then-existing non-SEC accounting and reporting standards. United does not believe the adoption of the standard will have a significant impact on the Company s financial condition or results of operations.

On June 12, 2009, the FASB issued Statement No. 167 (SFAS 167), which amends FASB Interpretation No 46(R), Consolidation of Variable Interest Entities . SFAS 167 changes how a company determines when an entity that is not sufficiently capitalized or is not controlled through voting should be consolidated. SFAS 167 will require a company to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for interim periods ending after November 15, 2009. Early adoption is prohibited. United plans to adopt SFAS 167 during the fourth quarter of 2009, but does not believe the guidance will have a significant impact on the Company s financial condition or results of operations.

On June 12, 2009, the FASB issued Statement No. 166 (SFAS 166), Accounting for Transfers of Financial Assets , which amends FASB Statement No. 140. SFAS 166 will require additional information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. SFAS 166 also eliminates the concept of a qualifying special-purpose entity , changes the

Table of Contents

requirements of derecognizing financial assets, and requires additional disclosures. SFAS 166 is effective for interim periods ending after November 15, 2009. Early adoption is prohibited. United plans to adopt SFAS 166 during the fourth quarter of 2009, but does not believe the guidance will have a significant impact on the Company's financial condition or results of operations.

In May 2009, the FASB issued Statement No. 165 (SFAS 165), *Subsequent Events* which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim periods ending after June 15, 2009. United has adopted SFAS 165 during the second quarter of 2009 and this adoption did not have an impact on United's consolidated financial statements.

On April 9, 2009, the FASB issued Staff Position SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (SFAS 157-4). This final staff position provides additional guidance in determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes as defined in SFAS 157, *Fair Value Measurements*. SFAS 157-4 is effective for interim periods ending after June 15, 2009, but early adoption was permitted for interim periods ending after March 15, 2009. United adopted SFAS 157-4 during the second quarter of 2009. The adoption of this statement did not have a material impact on United's consolidated financial statements.

On April 9, 2009, the FASB issued Staff Position SFAS 115-2, SFAS 124-2, and EITF 99-20-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This final staff position provides guidance in determining whether impairments in debt securities are other-than-temporary, and modifies the presentation and disclosures surrounding such instruments. This final staff position is effective for interim periods ending after June 15, 2009, but early adoption was permitted for interim periods ending after March 15, 2009. United adopted SFAS 115-2 during the second quarter of 2009. The adoption of this statement did not have a material impact on United's consolidated financial statements.

On April 9, 2009, the FASB issued Staff Position SFAS 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (SFAS 107-1 and APB 28-1). This final staff position amends FASB Statement No. 107, *Disclosures about Fair Values of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The final staff position also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. This final staff position is effective for interim periods ending after June 15, 2009, but early adoption was permitted for interim periods ending after March 15, 2009. The disclosure provisions of SFAS 107-1 have been adopted by United and the adoption did not have any impact on the Company's financial condition or results of operations.

In January 2009, the FASB issued FSP 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* (FSP 99-20). This FSP amends the impairment guidance in EITF 99-20, *Recognition of Interest Income and Impairment of Purchased Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, by eliminating the requirement that an investment holder's best estimate of cash flows be based upon those that a market participant would use. Instead, FSP 99-20 requires that an other-than-temporary impairment (OTTI) be recognized as a realized loss through earnings when it is probable that there has been an adverse change in the investment holder's estimated cash flows from the cash flows previously projected. This requirement and amendment makes the impairment model in EITF 99-20 consistent with the impairment model in SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*. In addition, this FSP provides additional guidance emphasizing that investment holders should consider all available information (i.e., past events, current conditions, and expected events) when developing estimates of future cash flows in their EITF 99-20 OTTI assessments. FSP 99-20 was effective for interim and annual reporting periods ending after December 15, 2008. Retroactive application to

Table of Contents

prior interim or annual reporting periods is not permitted. The adoption of this FSP did not have any impact on the level or amount of OTTI impairments because United does not have any transferred securitized financial assets. In December 2008, the FASB issued FSP FAS 132R-1 (FSP 132R-1), *Employers' Disclosures about Postretirement Benefit Plan Assets*. This FSP amends FASB Statement 132R, *Employers' Disclosures about Pensions and other Postretirement Benefits*, to require additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. The objectives of the enhanced disclosures are to provide users of financial statements with an understanding of: how investment allocation decisions are made; the major categories of an employer's plan assets; the inputs and valuation techniques used to measure the fair value of a plan's assets; the effect of fair value measurements on plan assets using significant unobservable inputs, and significant concentrations of risk within plan assets. Additionally, FSP 132R requires employers to reconcile the beginning and ending balances of plan assets with fair values measured using significant Level 3 unobservable inputs. This reconciliation will require entities to separately present changes during the period that are attributable to actual return on plan assets, purchases, sales and settlements, and transfers in and out of Level 3. The disclosure provisions of FSP 132R-1 are required for reporting periods ending after December 15, 2009. Comparative disclosures are not required upon adoption and earlier application of this FSP is permitted. The adoption of FSP 132R-1 is not expected to have an impact on the Company's financial condition, results of operations, or liquidity.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46R-8 (FSP 140/FIN 46R). FSP 140/FIN 46R requires public entities to provide additional disclosures about transfers of financial assets and their involvement with VIEs. The FASB issued this FSP with the intent to immediately improve the level of transparency about these transactions and involvements, in advance of the effective date of the proposed amendments to SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, and FIN 46R, *Consolidation of Variable Interest Entities*. The enhanced disclosures of FSP 140/FIN 46R were required for the first reporting period, interim or annual, ending after December 15, 2008. The disclosure provisions of this FSP have been adopted by United and the adoption did not have any impact on the Company's financial condition, results of operations, or liquidity.

In March 2008, the FASB issued FASB Statement No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities* which amends FASB Statement No. 133. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The disclosure provisions of SFAS 161 have been adopted by United and the adoption did not have any impact on the Company's financial condition, results of operations, or liquidity.

In December 2007, the FASB issued FASB Statement No. 141-revised 2007 (SFAS 141R), *Business Combinations* which amends FASB Statement 141 (SFAS 141). SFAS 141R aims to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. Thus, SFAS 141R had no effect on United's consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. United adopted SFAS 160 on January 1, 2009. The adoption of this statement did not have a material impact on United's consolidated financial statements.

Table of Contents**2. INVESTMENT SECURITIES**

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

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 12,035	\$ 72	\$ 1	\$ 12,106
State and political subdivisions	101,720	1,839	1,048	102,511
Residential mortgage-backed securities				
Agency	576,667	19,157	17	595,807
Non-agency	170,161	29	16,616	153,574
Trust preferred collateralized debt obligations	137,543		55,208	82,335
Single issue trust preferred securities	15,535	1	8,230	7,306
Marketable equity securities	5,044	26	347	4,723
Total	\$ 1,018,705	\$ 21,124	\$ 81,467	\$ 958,362

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 10,704	\$ 113	\$	\$ 10,817
State and political subdivisions	112,720	1,357	1,345	112,732
Residential mortgage-backed securities				
Agency	681,147	13,525	75	694,597
Non-agency	202,214		21,492	180,722
Trust preferred collateralized debt obligations	137,740		53,608	84,132
Single issue trust preferred securities	15,521		6,252	9,269
Marketable equity securities	5,070		296	4,774
Total	\$ 1,165,116	\$ 14,995	\$ 83,068	\$ 1,097,043

Provided on the following page is a summary of securities available for sale which were in an unrealized loss position at June 30, 2009 and December 31, 2008.

Table of Contents

	Less than 12 months		12 months or longer	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses
June 30, 2009				
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 7,512	\$ 1		
State and political subdivisions	25,368	614	\$ 5,053	\$ 434
Residential mortgage-backed securities				
Agency	1,493	17		
Non-agency	3,829	93	133,114	16,523
Trust preferred collateralized debt obligations	10,510	4,744	71,825	50,464
Single issue trust preferred securities	1,941	4,650	5,229	3,580
Marketable equity securities	426	144	807	203
Total	\$ 51,079	\$ 10,263	\$ 216,028	\$ 71,204

	Less than 12 months		12 months or longer	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses
December 31, 2008				
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies				
State and political subdivisions	\$ 38,574	\$ 1,345		
Residential mortgage-backed securities				
Agency	13,718	18	\$ 5,491	\$ 57
Non-agency	159,590	18,008	21,133	3,484
Trust preferred collateralized debt obligations	19,562	10,211	64,571	43,396
Single issue trust preferred securities	5,537	5,043	3,732	1,210
Marketable equity securities	613	277	356	19
Total	\$ 237,594	\$ 34,902	\$ 95,283	\$ 48,166

Marketable equity securities consist mainly of equity securities of financial institutions. The following table shows the proceeds from 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.

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Proceeds from sales and calls	\$94,365	\$212,683	\$180,116	\$336,561
Gross realized gains	345	4	509	75
Gross realized losses	516	9	516	9

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.

Gross unrealized losses on available for sale securities were \$81,467 on 142 securities at June 30, 2009. Securities in an unrealized loss position at June 30, 2009 consisted primarily of trust preferred collateralized debt obligations,

single

Table of Contents

issue trust preferred securities and non-agency residential mortgage-backed securities. The trust preferred collateralized debt obligations and the single issue trust preferred securities relate mainly to securities of financial institutions. The unrealized loss on the non-agency residential mortgage-backed securities portfolio relates primarily to AAA securities of various private label issuers. The Company has no exposure to real estate investment trusts (REITS) in its investment portfolio.

In determining whether or not the available for sale trust preferred collateralized debt obligations, in particular those in an unrealized loss position for twelve months or more, were other than temporarily impaired, 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.

In analyzing the duration and severity of the losses, management considered the following: (1) the market for these securities was not active as evidenced by the lack of trades and the severe widening of the bid/ask spread; (2) the markets for pooled trust preferred securities (TRUP CDOs) ultimately became dysfunctional with no significant transactions to report; (3) low market prices for certain bonds, in the overall debt markets, were evidence of credit stress in the general markets and not necessarily an indication of credit problems with a particular issuer; and (4) the general widening in overall risk premiums in the broader markets was responsible for a significant amount of the price decline in the TRUP CDO portfolio.

The amortized cost of available for sale TRUP CDOs in an unrealized loss position for twelve months or longer as of June 30, 2009 consisted of \$18.36 million in investment grade bonds, \$12.91 million in split-rated bonds and \$99.83 million in below investment grade bonds. In the single issue trust preferred securities portfolio, there were no securities greater than \$5 million in an unrealized loss position for twelve months or longer.

The following is a summary of the available for sale TRUP CDOs and single issue trust preferred securities in an unrealized loss position twelve months or greater as of June 30, 2009:

Class	Amortized Cost	Fair Value	Unrealized Loss	Investment Grade	Split Rated	Below Investment Grade
Senior	\$ 15,000	\$ 9,799	\$ 5,201	\$ 15,000		
Mezzanine (now in Senior position)	22,284	11,549	10,735		\$ 7,459	\$ 14,825
Mezzanine	85,005	50,477	34,528			85,005
Single Issue Trust Preferred	8,809	5,229	3,580	3,355	5,454	
Totals	\$ 131,098	\$ 77,054	\$ 54,044	\$ 18,355	\$ 12,913	\$ 99,830

To determine a net realizable value and assess whether other-than-temporary impairment existed, management performed detailed cash flow analysis to determine whether, in management's judgment, it was more likely than not that United would not recover the entire amortized cost basis of the security. Management's cash flow analysis was performed for each issuer and considered the current deferrals and defaults, the likelihood that current deferrals would cure or ultimately default, potential future deferrals and defaults, subordination, cash reserves, excess interest spread, credit analysis of the underlying collateral and the priority of payments in the cash flow structure. Management also spoke with analysts who covered specific companies, particularly when those companies were deferring or experiencing financial difficulties. The underlying collateral analysis for each issuer took into consideration several factors including TARP participation, capital adequacy, earnings trends and asset quality. Management also performed a stress test analysis to determine what level of defaults would have to occur before United would experience a break in yield or principal.

Table of Contents

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 above and exercise management's professional judgment in evaluating whether it was probable that United would be unable to realize all principal and interest expected at purchase.

Management does not believe any individual security with an unrealized loss as of June 30, 2009 is other-than-temporarily impaired. For debt 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. As of June 30, 2009, United does not intend to sell any impaired debt security nor is it anticipated that it would be required to sell any impaired debt security before the recovery of its amortized cost basis. For equity securities, United 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 does not believe any individual equity security is other-than-temporarily impaired. As of June 30, 2009, United has the ability and intent to hold these equity securities until a recovery of their fair value to at least the cost basis of the investment.

During the second quarter of 2009, United recorded losses of \$132 thousand on certain investment tax credit securities within its held to maturity investment portfolio and \$211 thousand on certain marketable equity securities within its available for sale investment portfolio that were considered other-than-temporarily impaired. United also evaluated all of its cost method investments and identified certain events or changes in circumstances during the second quarter of 2009 which had a significant adverse effect on the fair value of certain cost method securities. Therefore, United recorded an impairment loss of \$794 thousand in the second quarter of 2009 on these certain cost method securities. Below is a progression of the anticipated credit losses on securities which United has recorded other-than-temporary charges on through earnings and other comprehensive income.

Balance of cumulative credit losses at December 31, 2008	\$ 10,489
Additions for credit losses on securities for which OTTI was not previously recognized	1,081
Additions for additional credit losses on securities for which OTTI was previously recognized	152
Balance of cumulative credit losses at June 30, 2009	\$ 11,722

No previous other-than-temporary loss recognized was non-credit related, thus no cumulative effect adjustment was required as a result of adopting SFAS 115-2.

The amortized cost and estimated fair value of securities available for sale at June 30, 2009 and December 31, 2008 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations without penalties.

	June 30, 2009		December 31, 2008	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 19,806	\$ 19,914	\$ 10,103	\$ 10,115
Due after one year through five years	56,629	58,158	72,091	73,048
Due after five years through ten years	185,468	189,077	226,455	226,647
Due after ten years	751,758	686,491	851,397	782,459
Marketable equity securities	5,044	4,722	5,070	4,774
Total	\$ 1,018,705	\$ 958,362	\$ 1,165,116	\$ 1,097,043

Table of Contents

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

	June 30, 2009			Estimated
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 11,394	\$ 1,728	\$	\$ 13,122
State and political subdivisions	29,519	566	268	29,817
Residential mortgage-backed securities				
Agency	121	11		132
Non-agency	2			2
Single issue trust preferred securities	54,176	20	18,004	36,192
Other corporate securities	6,956	475		7,431
Total	\$ 102,168	\$ 2,800	\$ 18,272	\$ 86,696

	December 31, 2008			Estimated
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 11,455	\$ 2,630	\$	\$ 14,085
State and political subdivisions	34,495	594	291	34,798
Residential mortgage-backed securities				
Agency	133	8		141
Non-agency	2			2
Single issue trust preferred securities	59,069	404	15,324	44,149
Other corporate securities	11,253		923	10,330
Total	\$ 116,407	\$ 3,636	\$ 16,538	\$ 103,505

Other corporate securities consist mainly of bonds of corporations. Gross realized gains from calls of securities held to maturity were \$13 for the second quarter and first half of 2009. Gross realized gains from calls of securities held to maturity were \$14 and \$38 for the second quarter and first half of 2008, respectively. The amortized cost and estimated fair value of debt securities held to maturity at June 30, 2009 and December 31, 2008 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.

	June 30, 2009		December 31, 2008	
	Amortized	Estimated	Amortized	Estimated
	Cost	Fair	Cost	Fair
		Value		Value
Due in one year or less	\$ 4,711	\$ 5,223	\$ 12,084	\$ 11,203
Due after one year through five years	8,128	8,347	10,085	10,267

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

Due after five years through ten years	14,161	15,082	16,206	17,549
Due after ten years	75,168	58,044	78,032	64,486
Total	\$ 102,168	\$ 86,696	\$ 116,407	\$ 103,505

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 \$893,151 and \$1,101,632 at June 30, 2009 and

Table of Contents

December 31, 2008, respectively.

3. LOANS

Major classifications of loans are as follows:

	June 30, 2009	December 31, 2008
Commercial, financial and agricultural	\$ 1,119,840	\$ 1,274,937
Real estate:		
Single-family residential	1,911,673	1,915,355
Commercial	1,651,022	1,647,307
Construction	621,668	601,995
Other	253,563	245,214
Installment	337,456	335,750
Total gross loans	\$ 5,895,222	\$ 6,020,558

The table above does not include loans held for sale of \$12,191 and \$868 at June 30, 2009 and December 31, 2008, respectively. Loans held for sale consist of single-family residential real estate loans originated for sale in the secondary market.

United's subsidiary banks have made loans, in the normal course of business, to the directors and officers of United and its subsidiaries, and to their affiliates. Such related party loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and did not involve more than normal risk of collectibility. The aggregate dollar amount of these loans was \$110,494 and \$123,536 at June 30, 2009 and December 31, 2008, respectively.

4. ALLOWANCE FOR CREDIT LOSSES

United maintains an allowance for loan losses and an allowance for lending-related commitments such as unfunded loan commitments and letters of credit. The allowance for lending-related commitments of \$2,312 and \$2,109 at June 30, 2009 and December 31, 2008, respectively, is separately classified as a liability on the balance sheet. The combined allowances for loan losses and lending-related commitments are referred to as the allowance for credit losses.

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

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Balance at beginning of period	\$ 64,682	\$ 59,050	\$ 63,603	\$ 58,744
Provision for credit losses	23,251	4,351	31,279	6,451
	87,933	63,401	94,882	65,195
Loans charged-off	(21,702)	(4,484)	(29,053)	(6,517)
Less: Recoveries	303	244	705	483
Net Charge-offs	(21,399)	(4,240)	(28,348)	(6,034)
Balance at end of period	\$ 66,534	\$ 59,161	\$ 66,534	\$ 59,161

5. RISK ELEMENTS

Nonperforming assets include loans on which no interest is currently being accrued, principal or interest has been in default for a period of 90 days or more and for which the terms have been modified due to deterioration in the financial position of the borrower. Loans are designated as nonaccrual when, in the opinion of management, the collection of principal or interest is doubtful. This generally occurs when a loan becomes 90 days past due as to principal or interest unless the loan is both well secured and in the process of collection. When interest accruals are discontinued, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for credit losses. Nonperforming assets also includes other real estate owned which consists of property acquired through foreclosure and is stated at the lower of cost or fair value less estimated selling costs.

Nonperforming assets are summarized as follows:

	June 30,	December
	2009	31,
		2008
Nonaccrual loans	\$ 42,825	\$ 42,317
Loans past due 90 days or more and still accruing interest	16,532	11,881
Restructured loans	1,095	
Total nonperforming loans	60,452	54,198
Other real estate owned	42,223	19,817
Total nonperforming assets	\$ 102,675	\$ 74,015

Loans are designated as impaired when, in the opinion of management, the collection of principal and interest in accordance with the contractual terms of the loan agreement is doubtful. At June 30, 2009, the recorded investment in loans that were considered to be impaired was \$52,378 (of which \$42,825 were on a nonaccrual basis). Included in this amount is \$20,477 of impaired loans for which the related allowance for credit losses is \$4,235 and \$31,901 of impaired loans that do not have an allowance for credit losses due to management's estimate that the fair value of the underlying collateral of these loans is sufficient for full repayment of the loan and interest. At December 31, 2008, the recorded investment in loans that were considered to be impaired was \$59,742 (of which \$42,317 were on a nonaccrual basis). Included in this amount were \$30,253 of impaired loans for which the related allowance for credit

losses was \$5,434 and \$29,489 of impaired loans that did not have an allowance for credit losses. The average recorded investment in impaired loans during the six months ended June 30, 2009 and for the year ended December 31, 2008 was approximately \$55,005 and \$50,281, respectively.

United recognized interest income on impaired loans of approximately \$135 and \$329 for the quarter and six months

Table of Contents

ended June 30, 2009, respectively, and \$341 and \$678 for the quarter and six months ended June 30, 2008, respectively. Substantially all of the interest income was recognized using the accrual method of income recognition. The amount of interest income that would have been recorded under the original terms for the above loans was \$1,012 and \$1,929 for the quarter and six months ended June 30, 2009, respectively, and \$850 and \$1,632 for the quarter and six months ended June 30, 2008, respectively.

6. INTANGIBLE ASSETS

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

	As of June 30, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit intangible assets	\$ 30,995	(\$24,976)	\$ 6,019
Goodwill not subject to amortization			\$ 312,140

	As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit intangible assets	\$ 30,995	(\$23,611)	\$ 7,384
Goodwill not subject to amortization			\$ 312,263

United incurred amortization expense of \$662 and \$1,366 for the quarter and six months ended June 30, 2009, respectively, and \$940 and \$1,958 for the quarter and six months ended June 30, 2008, respectively, related to intangible assets. The table presented below sets forth the anticipated amortization expense for intangible assets for each of the next five years:

Year	Amount
2009	\$2,561
2010	1,884
2011	1,362
2012	915
2013 and thereafter	662

7. SHORT-TERM BORROWINGS

Federal funds purchased and securities sold under agreements to repurchase are a significant source of funds for the Company. United has various unused lines of credit available from certain of its correspondent banks in the aggregate amount of \$300,000. These lines of credit, which bear interest at prevailing market rates, permit United to borrow funds in the overnight market, and are renewable annually subject to certain conditions. At June 30, 2009, federal funds purchased were \$112,115 while securities sold under agreements to repurchase were \$311,042.

United has available funds of \$60,000 with two unrelated financial institutions to provide for general liquidity needs. Both are unsecured revolving lines of credit. One has a one-year renewable term while the other line of credit has a two-year renewable term. Each line of credit carries an indexed floating rate of interest. At June 30, 2009, United had no outstanding balance under these lines of credit. Both lines require compliance with various financial and

nonfinancial covenants. As of June 30, 2009, United was not in compliance with two of the financial covenants on one of those

Table of Contents

lines (ratios of allowance for loan losses to nonperforming assets and nonperforming assets to net loans plus OREO). The Company has had discussions with the lender and expects to have the issue resolved prior to the end of the third quarter of 2009.

United Bank (VA) participates in the Treasury Investment Program, which is essentially the U.S. Treasury's savings account for companies depositing employment and other tax payments. The bank retains the funds in an open-ended interest-bearing note until the Treasury withdraws or calls the funds. A maximum note balance is established and that amount must be collateralized at all times. All tax deposits or a portion of the tax deposits up to the maximum balance are generally available as a source of short-term investment funding. As of June 30, 2009, United Bank (VA) had an outstanding balance of \$3,785 and had additional funding available of \$1,215.

8. LONG-TERM BORROWINGS

United's subsidiary banks are members of the Federal Home Loan Bank (FHLB). Membership in the FHLB makes available short-term and long-term borrowings from collateralized advances. All FHLB borrowings are collateralized by a mix of single-family residential mortgage loans, commercial loans and investment securities. At June 30, 2009, United had an unused borrowing amount of \$1,487,126 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 June 30, 2009, \$667,378 of FHLB advances with a weighted-average interest rate of 2.87% is scheduled to mature within the next ten years.

The scheduled maturities of borrowings are as follows:

Year	Amount
2009	\$ 80,000
2010	384,685
2011	60,000
2012	55,000
2013 and thereafter	87,693
Total	\$ 667,378

United has a total of ten statutory business trusts that were formed for the purpose of issuing or participating in pools of trust preferred capital securities (Capital Securities) with the proceeds invested in junior subordinated debt securities (Debentures) of United. The Debentures, which are subordinate and junior in right of payment to all present and future senior indebtedness and certain other financial obligations of United, are the sole assets of the trusts and United's payment under the Debentures is the sole source of revenue for the trusts. At June 30, 2009 and December 31, 2008, the outstanding balances of the Debentures were \$184,934 and \$185,147 respectively, and were included in the category of long-term debt on the Consolidated Balance Sheets entitled "Other long-term borrowings". The Capital Securities are not included as a component of shareholders' equity in the Consolidated Balance Sheets. United fully and unconditionally guarantees each individual trust's obligations under the Capital Securities.

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

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

Table of Contents

9. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily, and historically do not, represent future cash requirements. The amount of collateral obtained, if deemed necessary upon the extension of credit, is based on management's credit evaluation of the counterparty. United had approximately \$1,830,066 and \$1,874,051 of loan commitments outstanding as of June 30, 2009 and December 31, 2008, respectively, the majority of which expire within one year.

Commercial and standby letters of credit are agreements used by United's customers as a means of improving their credit standing in their dealings with others. Under these agreements, United guarantees certain financial commitments of its customers. A commercial letter of credit is issued specifically to facilitate trade or commerce. Typically, under the terms of a commercial letter of credit, a commitment is drawn upon when the underlying transaction is consummated as intended between the customer and a third party. United has issued commercial letters of credit of \$2,578 and \$3,035 as of June 30, 2009 and December 31, 2008, respectively. A standby letter of credit is generally contingent upon the failure of a customer to perform according to the terms of an underlying contract with a third party. United has issued standby letters of credit of \$125,988 and \$129,023 as of June 30, 2009 and December 31, 2008, respectively. In accordance with FIN 45, 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.

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

United accounts for its derivative financial instruments in accordance with FASB Statement No. 133 (SFAS No. 133),

Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS No. 133 requires all derivative instruments to be carried at fair value on the balance sheet. United 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 SFAS No. 133 relationship.

Under the provisions of SFAS No. 133, 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

Table of Contents

rate risk, are considered fair value hedges. Derivative instruments designated in hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. As of June 30, 2009, United has fair value hedges and a cash flow hedge.

For a fair value hedge, the fair value of the interest rate swap is recognized on the balance sheet as either a freestanding asset or liability with a corresponding adjustment to the hedged financial instrument. Subsequent adjustments due to changes in the fair value of a derivative that qualifies as a fair value hedge are offset in current period earnings. For a cash flow hedge, the fair value of the interest rate swap is recognized on the balance sheet as either a freestanding asset or liability with a corresponding adjustment to other comprehensive income within shareholders' equity, net of tax. Subsequent adjustments due to changes in the fair value of a derivative that qualifies as a cash flow hedge are offset to other comprehensive income, net of tax. The portion of a hedge that is ineffective is recognized immediately in earnings. No hedge ineffectiveness existed on cash flow hedges for the six months ended June 30, 2009 and 2008.

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

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.

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 SFAS 133 at June 30, 2009:

Derivative Classifications and Hedging Relationships

June 30, 2009

&n