UNITED BANKSHARES INC/WV
Form 10-K
March 01, 2019
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FORM 10-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the Fiscal Year Ended **December 31, 2018**

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: **002-86947**

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) 424-8716**

Securities registered pursuant to section 12(b) of the Act:

Common Stock, $2.50 Par Value	**NASDAQ Global Select Market**
(Title of class)	(Name of exchange on which registered)

Securities registered pursuant to 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes [X]** No [   ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [   ] **No [X]**

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 [X]** No [   ]

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). **Yes [X]** No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer **[X]**	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes [ ] **No [X]**

The aggregate market value of United Bankshares, Inc. common stock, representing all of its voting stock that was held by non-affiliates on June 30, 2018, was approximately **$3,615,835,714**.

As of January 31, 2019, United Bankshares, Inc. had **102,104,403** shares of common stock outstanding with a par value of **$2.50**.

Documents Incorporated By Reference

Certain specifically designated portions of the Definitive Proxy Statement for the United Bankshares, Inc. 2019 Annual Shareholders Meeting to be held on May 15, 2019 are incorporated by reference in Part III of this Form 10-K.

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As of the date of filing this Annual report, neither the annual shareholders report for the year ended December 31, 2018, nor the proxy statement for the annual United shareholders meeting has been mailed to shareholders.

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UNITED BANKSHARES, INC.

FORM 10-K, PART I

Item 1. BUSINESS

Organizational History and Subsidiaries

United Bankshares, Inc. (United) is a West Virginia corporation registered as a financial holding company pursuant to the Bank Holding Company Act of 1956, as amended. United was incorporated on March 26, 1982, organized on September 9, 1982, and began conducting business on May 1, 1984 with the acquisition of three wholly-owned subsidiaries. Since its formation in 1982, United has acquired thirty-one banking institutions including its recent acquisition of Cardinal Financial Corporation, which consummated after the close of business on April 21, 2017. During the fourth quarter of 2017, United consolidated its two banking subsidiaries, merging United Bank, Inc. into United Bank. Therefore, as of December 31, 2018 and 2017, United has one banking subsidiary doing business under the name of United Bank, operating under the laws of Virginia. United Bank offers a full range of commercial and retail banking services and products. United also owns nonbank subsidiaries which engage in other community banking services such as asset management, real property title insurance, financial planning, mortgage banking, and brokerage services.

Employees

As of December 31, 2018, United and its subsidiaries had approximately 2,230 full-time equivalent employees and officers. None of these employees are represented by a collective bargaining unit and management considers employee relations to be excellent.

Web Site Address

United s web site address is www.ubsi-inc.com . United makes available free of charge on its web site the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments thereto, as soon as reasonably practicable after United files such reports with the Securities and Exchange Commission (SEC). The reference to United s web site does not constitute incorporation by reference of the information contained in the web site and should not be considered part of this document. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Business of United

As a financial holding company, United s present businesses are community banking and mortgage banking. As of December 31, 2018, United s consolidated assets approximated $19.3 billion and total shareholders equity approximated $3.3 billion.

United is permitted to acquire other banks and bank holding companies, as well as thrift institutions. United is also permitted to engage in certain non-banking activities which are closely related to banking under the provisions of the Bank Holding Company Act and the Federal Reserve Board s Regulation Y. Management continues to consider such opportunities as they arise, and in this regard, management from time to time makes inquiries, proposals, or expressions of interest as to potential opportunities, although no agreements or understandings to acquire other banks or bank holding companies or non-banking subsidiaries or to engage in other nonbanking activities, other than those identified herein, presently exist. See Note B Notes to Consolidated Financial Statements for a discussion of United s completed merger with Cardinal Financial Corporation.

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Business of Subsidiaries

United, through its subsidiaries, engages primarily in community banking and mortgage banking offering most types of business permitted by law and regulation. Included among the banking services offered are the acceptance of deposits in checking, savings, time and money market accounts; the making and servicing of personal, commercial, and floor plan loans; and the making of construction and real estate loans. Also offered are individual retirement accounts, safe deposit boxes, wire transfers and other standard banking products and services. As part of its lending function, United Bank offers credit card services.

United Bank maintains a trust department which acts as trustee under wills, trusts and pension and profit sharing plans, as executor and administrator of estates, and as guardian for estates of minors and incompetents, and in addition performs a variety of investment and security services. Trust services are available to customers of affiliate banks. United Bank provides services to its correspondent banks such as check clearing, safekeeping and the buying and selling of federal funds.

George Mason Mortgage, LLC (George Mason), a wholly-owned subsidiary of United Bank, is engaged in the operation of a general mortgage and agency business, including the origination and acquisition of residential real estate loans for resale and generally the activities commonly conducted by a mortgage banking company. These loans are for single-family, owner-occupied residences with either adjustable or fixed rate terms, with a variety of maturities tailored to effectively serve its markets.

United Brokerage Services, Inc., a wholly-owned subsidiary of United Bank, is a fully-disclosed broker/dealer and a Registered Investment Advisor with the National Association of Securities Dealers, Inc., the Securities and Exchange Commission, and a member of the Securities Investor Protection Corporation. United Brokerage Services, Inc. offers a wide range of investment products as well as comprehensive financial planning and asset management services to the general public.

United Bank is a member of a network of automated teller machines known as the New York Currency Exchange (NYCE) ATM network. The NYCE is an interbank network connecting the ATMs of various financial institutions in the United States and Canada.

United through United Bank offers an Internet banking service, Smart Touch Online Banking, which allows customers to perform various transactions using a computer or tablet from any location or from a mobile device such as a smart phone or other cellular device as long as they have access to the Internet, applicable software and a secure browser. Specifically, customers can check personal account balances, receive information about transactions within their accounts, make transfers between accounts, stop payment on a check, and reorder checks. Customers may also pay bills online and can make payments to virtually any business or individual. Customers can set up recurring fixed payments, one-time future payments or a one-time immediate payment. Customers can also set up their own merchants, view and modify that merchant list, view pending transactions and view their bill payment history with approximately three (3) months of history.

United also offers an automated telephone banking system, Telebanc, which allows customers to access their personal account(s) or business account(s) information from a touch-tone telephone.

Lending Activities

United s loan portfolio, net of unearned income, increased $410.8 million or 3.16% in 2018 due mainly to growth in residential real estate loans. The loan portfolio is comprised of commercial, real estate and consumer loans including credit card and home equity loans. Residential real estate loans increased $505.2 million or 16.86%. Consumer loans increased $250.3 million or 35.04%. Commercial, financial and agricultural loans decreased $258.9 million or 3.31% as commercial real estate loans decreased $217.5 million or 3.74% and commercial loans (not secured by real estate) decreased $41.3 million or 2.07%. Construction and land development loans decreased $94.4 million or 6.28%.

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Commercial Loans

The commercial loan portfolio consists of loans to corporate borrowers primarily in small to mid-size industrial and commercial companies, as well as automobile dealers, service, retail and wholesale merchants. Collateral securing these loans includes equipment, machinery, inventory, receivables, vehicles and commercial real estate. Commercial loans are considered to contain a higher level of risk than other loan types although care is taken to minimize these risks. Numerous risk factors impact this portfolio including industry specific risks such as economy, new technology, labor rates and cyclicality, as well as customer specific factors, such as cash flow, financial structure, operating controls and asset quality. United diversifies risk within this portfolio by closely monitoring industry concentrations and portfolios to ensure that it does not exceed established lending guidelines. Diversification is intended to limit the risk of loss from any single unexpected economic event or trend. Underwriting standards require a comprehensive credit analysis and independent evaluation of virtually all larger balance commercial loans by the loan committee prior to approval.

Real Estate Loans

Commercial real estate loans consist of commercial mortgages, which generally are secured by nonresidential and multi-family residential properties. Also included in this portfolio are loans that are secured by owner-occupied real estate, but made for purposes other than the construction or purchase of real estate. Commercial real estate loans are to many of the same customers and carry similar industry risks as the commercial loan portfolio. Real estate mortgage loans to consumers are secured primarily by a first lien deed of trust. These loans are traditional one-to-four family residential mortgages. The loans generally do not exceed an 80% loan to value ratio at the loan origination date and most are at a variable rate of interest. These loans are considered to be of normal risk. Also included in the category of real estate mortgage loans are home equity loans.

As of December 31, 2018, approximately $417.7 million or 3.11% of United s loan portfolio were real estate loans that met the regulatory definition of a high loan-to-value loan. A high loan-to-value real estate loan is defined as any loan, line of credit, or combination of credits secured by liens on or interests in real estate that equals or exceeds a certain percentage established by United s primary regulator of the real estate s appraised value, unless the loan has other appropriate credit support. The certain percentage varies depending on the loan type and collateral. Appropriate credit support may include mortgage insurance, readily marketable collateral, or other acceptable collateral that reduces the loan-to-value ratio below the certain percentage.

Consumer Loans

Consumer loans are secured by automobiles, boats, recreational vehicles, and other personal property. Personal loans, student loans and unsecured credit card receivables are also included as consumer loans. United monitors the risk associated with these types of loans by monitoring such factors as portfolio growth, lending policies and economic conditions. Underwriting standards are continually evaluated and modified based upon these factors.

Underwriting Standards

United s loan underwriting guidelines and standards are updated periodically and are presented for approval by the Board of Directors of United Bank. The purpose of the standards and guidelines is to grant loans on a sound and collectible basis; to invest available funds in a safe, profitable manner; to serve the legitimate credit needs of the communities of United s primary market area; and to ensure that all loan applicants receive fair and equal treatment in the lending process. It is the intent of the underwriting guidelines and standards to: minimize loan losses by carefully investigating the credit history of each applicant, verify the source of repayment and the ability of the applicant to repay, collateralize those loans in which collateral is deemed to be required, exercise care in the documentation of the application, review, approval, and origination process, and administer a comprehensive loan collection program.

United s underwriting standards and practices are designed to originate both fixed and variable rate loan products in a manner which is consistent with the prudent banking practices applicable to these exposures. Typically, both fixed and variable rate loan underwriting practices incorporate conservative methodology, including the use of stress testing for commercial loans, and other product appropriate measures designed to provide an adequate margin of safety for the full collection of both principal and interest within contractual terms. Consumer real estate secured loans are underwritten to the initial rate, and to a higher assumed rate commensurate with normal market conditions. Therefore, it is the intent of United s underwriting standards to insure that adequate primary repayment capacity exists to address both future increases in interest rates, and fluctuations in the underlying cash flows available for repayment. Historically, and at December 31, 2018, United has not offered teaser rate loans, and had no loan portfolio products which were specifically designed for sub-prime borrowers. Management defines sub-prime borrowers as consumer borrowers with a credit score of less than 660.

The above guidelines are adhered to and subject to the experience, background and personal judgment of the loan officer assigned to the loan application. A loan officer may grant, with justification, a loan with variances from the underwriting guidelines and standards. However, the loan officer may not exceed his or her respective lending authority without obtaining the prior, proper approval as outlined in United s loan policy from a superior, a regional supervisor or market president (dual approval per policy) or the Loan Committee, whichever is deemed appropriate for the nature of the variance.

Loan Concentrations

United has commercial loans, including real estate and owner-occupied, income-producing real estate and land development loans, of approximately $8.9 billion as of December 31, 2018. These loans are primarily secured by real estate located in West Virginia, southeastern Ohio, southwestern Pennsylvania, Virginia, Maryland and the District of Columbia. United categorizes these commercial loans by industry according to the North American Industry Classification System (NAICS) to monitor the portfolio for possible concentrations in one or more industries. As of the most recent fiscal year-end, United has one such industry classification that exceeded 10% of total loans. As of December 31, 2018, approximately $6.2 billion or 45.9% of United s total loan portfolio were for the purpose of real estate development and construction. The loans were originated by United s subsidiary banks using underwriting standards as set forth by management. United s loan administration policies are focused on the risk characteristics of the loan portfolio, including commercial real estate loans, in terms of loan approval and credit quality. It is the opinion of management that these loans do not pose any unusual risks and that adequate consideration has been given to the above loans in establishing the allowance for loan losses.

United does not have a loan classification concentration in the mining, quarrying and oil and gas extraction industry. As of December 31, 2018, approximately $114.8 million or less than 1% of United s total loan portfolio were for the purpose of extracting, manufacturing and distributing oil, coal and natural gas.

Secondary Markets

United generally originates loans within the primary market area of United Bank. United may from time to time make loans to borrowers and/or on properties outside of its primary market area as an accommodation to its existing customers. In addition to offices in the primary market area of United Bank, George Mason also has offices in North Carolina and South Carolina. United does not service mortgage loans for others.

United Bank and George Mason both originate and acquire residential real estate loans for resale in the secondary market. Mortgage loan originations are generally intended to be sold in the secondary market on a best efforts or mandatory basis.

During 2018, United originated $2.0 billion of real estate loans for sale in the secondary market and sold $2.0 billion of loans designated as held for sale in the secondary market. Net gains on the sales of these loans during 2018 were $58.1 million.

The principal sources of revenue from United s mortgage banking business are: (i) loan origination fees; (ii) gains or losses from the sale of loans; and (iii) interest earned on mortgage loans during the period that they are held by United pending sale, if any.

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Investment Activities

United s investment policy stresses the management of the investment securities portfolio, which includes both securities held to maturity and securities available for sale, to maximize return over the long-term in a manner that is consistent with good banking practices and relative safety of principal. United currently does not engage in trading account activity. The Asset/Liability Management Committee of United is responsible for the coordination and evaluation of the investment portfolio.

Sources of funds for investment activities include core deposits . Core deposits include certain demand deposits, 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, securities sold under agreements to repurchase and FHLB borrowings. Repurchase agreements represent funds that are generally obtained as the result of a competitive bidding process.

United s investment portfolio is comprised of a significant amount of U.S. Treasury securities and obligations of U.S. Agencies and Corporations as well as mortgage-backed securities. Obligations of States and Political Subdivisions are comprised of primarily investment grade rated municipal securities. Interest and dividends on securities for the years of 2018, 2017, and 2016 were $61.7 million, $42.2 million, and $36.1 million, respectively. For the year of 2018, United realized net losses on sales of securities of $862 thousand. For the years of 2017 and 2016, United realized net gains on sales of securities of $5.6 million, and $313 thousand, respectively. In the year 2018, United recognized other-than-temporary impairment (OTTI) charges of $1.76 million, consisting mainly of OTTI on securities United intends to sell. In the year 2017, United recognized OTTI charges of $60 thousand, consisting of OTTI on collateralized mortgage obligations (CMOs). In the year 2016, United recognized OTTI charges of $33 thousand, consisting of OTTI on collateralized mortgage obligations (CMOs).

Competition

United faces a high degree of competition in all of the markets it serves. United considers all of West Virginia to be included in its market area. This area includes the five largest West Virginia Metropolitan Statistical Areas (MSA): the Parkersburg MSA, the Charleston MSA, the Huntington MSA, the Morgantown MSA and the Wheeling MSA. United serves the Ohio counties of Lawrence, Belmont, Jefferson and Washington and Fayette county in Pennsylvania primarily because of their close proximity to the Ohio and Pennsylvania borders and United banking offices located in those counties or in nearby West Virginia. United s Virginia markets include the Maryland, northern Virginia and Washington, D.C. MSA, the Winchester MSA, the Harrisonburg MSA, and the Charlottesville MSA. United considers all of the above locations to be the primary market area for the business of its banking subsidiary.

With prior regulatory approval, West Virginia and Virginia banks are permitted unlimited branch banking throughout each state. In addition, interstate acquisitions of and by West Virginia and Virginia banks and bank holding companies are permissible on a reciprocal basis, as well as reciprocal interstate acquisitions by thrift institutions. These conditions serve to intensify competition within United s market.

As of December 31, 2018, there were 62 bank holding companies operating in the State of West Virginia registered with the Federal Reserve System and the West Virginia Board of Banking and Financial Institutions and 94 bank holding companies operating in the Commonwealth of Virginia registered with the Federal Reserve System and the Virginia State Corporation Commission. These holding companies are headquartered in various states and control banks throughout West Virginia and Virginia, which compete for business as well as for the acquisition of additional banks.

Economic Characteristics of Primary Market Area

As of December 2018, West Virginia s seasonally adjusted unemployment rate was 5.1%, the lowest seasonally adjusted unemployment rate in 2018, according to information from West Virginia s Bureau of Employment Programs. The number of unemployed state residents declined by 200 to 40,100, the lowest seasonally adjusted total unemployment since July 2017. Total unemployment was down 2,200 over the year. The national unemployment rate was 3.9%. The state unemployment rate of 5.1% for December 2018 was a decrease from a rate of 5.2% for the month of November 2018 and down from the rate of 5.5% for the month of December 2017. Since December 2017, total nonfarm payroll employment has increased 4,700. Employment gains included 2,200 in education and health services, 2,100 in government, 1,100 in trade, transportation, and utilities, 1,100 in construction, and 900 in leisure and hospitality. Employment declines included 1,400 in professional and business services, 1,000 in other services, 200 in information, and 100 in mining and logging. Employment was unchanged in both manufacturing and in financial activities. West Virginia s not seasonally adjusted unemployment rate was 4.8% in December 2018. West Virginia s economy enjoyed its strongest year of growth in nearly a decade during 2017, emerging from several years of severe economic weakness. Most of the bounce back in the state s economy is connected to the energy sector, not only from the increased production of coal and natural gas but also as a result of a massive build-out of new natural gas pipeline infrastructure throughout the state. According to the latest forecast from the West Virginia University College of Business and Economics, employment in West Virginia is estimated to increase 0.4% per year on average through 2023, compared to an expectation of 0.7% for the nation as a whole. A slightly positive growth overall in energy through 2023; this growth will be driven by the natural gas industry. Construction is expected to add jobs at the fastest rate going forward, with much of the job growth occurring early in the forecast horizon due to natural gas pipeline construction. In the middle part of the forecast horizon, construction employment growth will be driven in part by public infrastructure investments. Manufacturing is expected to add jobs at an above-average rate over the forecast horizon, in large part due gains in chemicals, automotive components, and aerospace equipment. Per capita personal income is expected to grow at an average annual rate of 1.4% over the next five years, somewhat less than the national rate. The fastest growing segment of income is non-wage income, such as Social Security benefits. While the state overall is expected to lose population in coming years, around a dozen counties are expected to add residents and several more are expected to remain generally stable. Population gains will be heavily concentrated in North-Central West Virginia and the Eastern Panhandle.

United s Virginia banking offices are located in markets that historically have reflected low unemployment rate levels. According to information available from the Virginia Employment Commission, Virginia s seasonally adjusted unemployment rate was 2.8% as of December of 2018. The December 2018 seasonally adjusted unemployment rate for Virginia was down 0.8 percentage point from a year ago and continued to be the lowest rate since the April 2001 rate of 2.8%. The labor force, which expanded for the third consecutive month, added 4,213 for a total of 4,359,242 and set a new record high. Household employment increased by 4,953, which was the twelfth consecutive monthly increase, and at 4,236,062, set a new record high. The number of unemployed continued to drop, declining by 740 to 123,180. Virginia s seasonally adjusted unemployment rate continues to be below the national rate of 3.9%. In December, private sector employment decreased by 1,100 jobs to 3,330,900, while public sector payrolls increased by 1,000 jobs to 700,200. Virginia s unadjusted unemployment rate was 2.6% in December of 2018. Over 2018, seasonally adjusted total nonfarm employment increased in all ten of Virginia s metropolitan areas. The Virginia Beach-Norfolk-Newport News metropolitan area experienced the largest absolute job gain, up 13,700 jobs (+1.8%). Northern Virginia was ranked second, with a gain of 12,100 jobs (+0.8%), and Richmond was ranked third, with a gain of 11,100 jobs (+1.7%). The other over-the-year job gains occurred in: Roanoke (+4,100 jobs); Charlottesville (+3,200 jobs); Lynchburg and Winchester (+1,900 jobs each); Blacksburg-Christiansburg-Radford (+1,800 jobs); Staunton-Waynesboro (+1,100 jobs); and Harrisonburg (+700 jobs). Virginia s seasonally adjusted nonfarm employment decreased by a slight 100 jobs in December to 4,031,100, after increasing the previous eleven months.

Regulation and Supervision

United, as a financial holding company, is subject to the restrictions of the Bank Holding Company Act of 1956, as amended, and is registered pursuant to its provisions. As such, United is subject to the reporting requirements of and examination by the Board of Governors of the Federal Reserve System (Board of Governors).

The Bank Holding Company Act prohibits the acquisition by a bank holding company of direct or indirect ownership of more than five percent of the voting shares of any bank within the United States without prior

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approval of the Board of Governors. With certain exceptions, a bank holding company also is prohibited from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company which is not a bank, and from engaging directly or indirectly in business unrelated to the business of banking, or managing or controlling banks.

The Board of Governors, in its Regulation Y, permits financial holding companies to engage in preapproved non-banking activities closely related to banking or managing or controlling banks. Approval of the Board of Governors is necessary to engage in certain other non-banking activities which are not preapproved or to make acquisitions of corporations engaging in these activities. In addition, on a case-by-case basis, the Board of Governors may approve other non-banking activities. A financial holding company may also engage in financial activities, including securities underwriting and dealing, insurance agency and underwriting activities, and merchant banking activities.

As a financial holding company doing business in West Virginia, United is also subject to regulation and examination by the West Virginia Board of Banking and Financial Institutions (the West Virginia Banking Board) and must submit annual reports to the West Virginia Banking Board. Further, any acquisition application that United must submit to the Board of Governors must also be submitted to the West Virginia Banking Board for approval.

The Board of Governors has broad authority to prohibit activities of financial holding companies and their non-banking subsidiaries that represent unsafe and unsound banking practices or which constitute violations of laws or regulations. The Board of Governors also can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as $1 million for each day the activity continues.

United Bank, as a Virginia state member bank, is subject to supervision, examination and regulation by the Federal Reserve System, and as such, are subject to applicable provisions of the Federal Reserve Act and regulations issued thereunder. United Bank is subject to the Virginia banking statutes and regulations, and is primarily regulated by the Virginia Bureau of Financial Institutions. As a member of the Federal Deposit Insurance Corporation (FDIC), United Bank s deposits are insured as required by federal law. Bank regulatory authorities regularly examine revenues, loans, investments, management practices, and other aspects of United Bank. These examinations are conducted primarily to protect depositors and not shareholders. In addition to these regular examinations, United Bank must furnish to regulatory authorities quarterly reports containing full and accurate statements of its affairs.

United is also under the jurisdiction of the SEC and certain state securities commissions in regard to the offering and sale of its securities. Generally, United must file under the Securities Exchange Act of 1933, as amended, to issue additional shares of its common stock. United is also registered under and is subject to the regulatory and disclosure requirements of the Securities Exchange Act of 1934, as amended, as administered by the SEC. United is listed on the NASDAQ Global Select Market under the quotation symbol UBSI, and is subject to the rules of the NASDAQ for listed companies.

SEC regulations require us to disclose certain types of business and financial data on a regular basis to the SEC and to our shareholders. We are required to file annual, quarterly and current reports with the SEC. We prepare and file an annual report on Form 10-K with the SEC that contains detailed financial and operating information, as well as a management response to specific questions about United s operations. SEC regulations require that our annual reports to shareholders contain certified financial statements and other specific items such as management s discussion and analysis of our financial condition and results of operations. We must also file quarterly reports with the SEC on Form 10-Q that contain detailed financial and operating information for the prior quarter and we must file current reports on Form 8-K to provide the pubic with information on recent material events.

In addition to periodic reporting to the SEC, we are subject to proxy rules and tender offer rules issued by the SEC. Our officers, directors and principal shareholders (holding 10% or more of our stock) must also submit reports to the SEC regarding their holdings of our stock and any changes to such holdings, and they are subject to short-swing profit liability.

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Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), into law. The Dodd-Frank Act significantly changes regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes, among other things, provisions creating a Financial Services Oversight Council to identify emerging systemic risks and improve interagency cooperation; centralizing the responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, which is responsible for implementing, examining and enforcing compliance with federal consumer financial laws; permanently raising the current standard maximum deposit insurance amount to $250,000; establishing strengthened capital standards for banks, and disallowing trust preferred securities as qualifying for Tier 1 capital (subject to certain grandfather provisions for existing trust preferred securities); establishing new minimum mortgage underwriting standards; granting the Federal Reserve Board the power to regulate debit card interchange fees; and implementing corporate governance changes.

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 Federal Reserve issued an order on December 18, 2014 extending the period which banking entities have to divest disallowed securities under the Volcker Rule to July 21, 2016. The Federal Reserve also announced its intention to grant an additional one year extension of the conformance period until 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. During the third quarter of 2014 United sold four Trup Cdos for a net gain of $1.3 million in response to the Volcker Rule. Under the Volcker Rule, these four securities were identified by United as covered funds and were required to be divested of before July 21, 2017. United believes the remaining Trup Cdo portfolio is excluded from the scope of the Volcker Rule.

On May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act (the EGRRCPA Act) which provides certain limited amendments to the Dodd-Frank Act, as well as certain targeted modifications to other post-financial crisis regulatory requirements. In addition, the legislation establishes new consumer protections and amends various securities- and investment company-related requirements. The EGRRCPA Act primarily amends several other laws, including the Truth in Lending Act (TILA), Federal Credit Union Act, Federal Deposit Insurance Act, Fair Credit Reporting Act (FCRA) and Securities Act of 1933. The Act is divided into six titles, which aim to: improve consumer access to mortgage credit (Title I); provide regulatory relief and protect consumer access to credit (Title II); protect the credit information of consumers, including veterans and servicemembers (Title III); tailor regulations for certain bank holding companies, including raising the threshold levels for exemption from certain prudential standards and stress testing (Title IV); encourage capital formation by reforming certain Securities and Exchange Commission (SEC) regulations (Title V); and protect student borrowers (Title VI).

Deposit Insurance

The deposits of United Bank are insured by the FDIC to the extent provided by law. Accordingly, United Bank is also subject to regulation by the FDIC. United Bank is subject to deposit insurance assessments to maintain the Deposit Insurance Fund (DIF) of the FDIC. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank s capital level and supervisory rating (CAMELS rating) and certain financial measures to assess an institution s ability to withstand asset-related stress and funding-related stress. The risk matrix utilizes four risk categories which are distinguished by capital levels and supervisory ratings.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will update its loss and income projections at least semi-annually for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

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In April 2011, the FDIC implemented rulemaking under the Dodd-Frank Act to reform the deposit insurance assessment system. The final rule redefined the assessment base used for calculating deposit insurance assessments. Specifically, the rule bases assessments on an institution s total assets less tangible capital, as opposed to total deposits. Since the new base is larger than the prior base, the FDIC also proposed lowering assessment rates so that the rules would not significantly alter the total amount of revenue collected from the industry. The new assessment scale ranges from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest.

As part of the its changes in April 2011, the FDIC established a new methodology for determining assessment rates for large and highly complex institutions, as defined in the rules. In October 2012, the FDIC announced revised changes to some of the definitions used to determine assessment rates for these large and highly complex insured depository institutions. The rule generally applies to FDIC-regulated banks with assets greater than $10 billion and took effect April 1, 2013. In the second quarter of 2018, United Bank was reclassified as a large institution for deposit insurance assessment purposes. Generally, this new classification will result in higher FDIC insurance premiums.

On September 30, 2018, the Deposit Insurance Fund Reserve Ratio reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35% ahead of the September 30, 2020, deadline required under the Dodd-Frank Act. FDIC regulations provide for two changes to deposit insurance assessments upon reaching the minimum: (1) surcharges on insured depository institutions with total consolidated assets of $10 billion or more (large banks) ceased on December 28, 2018; and (2) small banks will receive assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from between 1.15% and 1.35%, to be applied when the reserve ratio is at or above 1.38%. United will benefit from both these changes.

United s FDIC insurance expense totaled $11.5 million, $7.1 million, and $8.5 million in 2018, 2017 and 2016, respectively.

Capital Requirements

As a financial holding company, United is subject to consolidated regulatory capital requirements administered by the Federal Reserve Board. United Bank is also subject to the capital requirements administered by the Federal Reserve Board. On July 2, 2013, the Federal Reserve, United s and United Bank s 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 were effective for United and United Bank on January 1, 2015 (subject to a phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called Common Equity Tier 1 (CET1), (ii) specify that Tier 1 capital consist of CET1 and Additional Tier 1 capital instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments from capital as compared to existing regulations.

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When fully phased in on January 1, 2019, the Basel III Capital Rules will require United and United Bank to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets (as compared to a current minimum leverage ratio of 3% for banking organizations that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority s risk-adjusted measure for market risk).

The Basel III Capital Rules also provide for a countercyclical capital buffer that is applicable to only certain covered institutions and is not expected to have any current applicability to United and United Bank.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Under the Basel III Capital Rules, the initial minimum capital ratios as of January 1, 2015 are as follows:

- 4.5% CET1 to risk-weighted assets.
- 6.0% Tier 1 capital to risk-weighted assets.
- 8.0% Total capital to risk-weighted assets.
- 4.0% Tier 1 capital to average assets.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including United and United Bank, may make a one-time permanent election to continue to exclude these items. Upon adoption on January 1, 2015, United and United Bank made this election in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of United s securities portfolio. The Basel III Capital Rules also preclude certain hybrid securities, such as trust preferred securities, as Tier 1 capital of bank holding companies, subject to phase-out. However, because United was less than $15 billion in total consolidated assets for reporting periods prior to June 30, 2017, the Basel III Capital Rules grandfathered United s Trust Preferred Securities as Tier 1 capital and was thus subject to a limit of 25% of Tier 1 capital elements excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments applied to Tier 1 capital, which is substantially similar to the limit in the general risk-based capital rules.

However, with the acquisition of Cardinal on April 21, 2017, United s total consolidated assets now exceeds $15 billion. As a result, United s Trust Preferred Securities are no longer included in United s Tier 1 capital but are included as a component of Tier 2 capital on a permanent basis without phase-out. This new requirement was reflected in United s regulatory capital amounts for June 30, 2017, the first reporting period after the Cardinal acquisition.

As stated, implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. Specific changes to current rules impacting United s determination of risk-weighted assets include, among other things:

- Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.

- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.

- Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%).

- Providing for a risk weight, generally not less than 20% with certain exceptions, for securities lending transactions based on the risk weight category of the underlying collateral securing the transaction.

- Providing for a 100% risk weight for claims on securities firms.

- Eliminating the current 50% cap on the risk weight for OTC derivatives.

In addition, the Basel III Capital Rules also provide more advantageous risk weights for derivatives and repurchase-style transactions cleared through a qualifying central counterparty and increases the scope of eligible guarantors and eligible collateral for purposes of credit risk mitigation.

The Basel III liquidity framework also requires banks and bank holding companies to measure their liquidity against specific liquidity tests. One test, referred to as the Liquidity Coverage Ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the Net Stable Funding Ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements will incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase long-term debt as a funding source. On September 3, 2014, the federal banking agencies finalized rules implementing the LCR for advanced approaches banking organizations and a modified version of the LCR for bank holding companies with at least $50 billion in total consolidated assets that are not advanced approaches banking organizations, neither of which would apply to United or its banking subsidiaries. The federal banking agencies have not yet proposed rules to implement the NSFR.

As of December 31, 2018, United and United Bank met all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective.

The Basel III Capital Rules adopted in July of 2013 do not address the proposed Liquidity Coverage Ratio Test and Net Stable Funding Ratio Test called for by the proposed Basel III framework.

Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a financial institution could subject United to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits and other restrictions on its business. As described below, significant additional restrictions can be imposed on United if it would fail to meet applicable capital requirements.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) establishes a new regulatory scheme, which ties the level of supervisory intervention by bank regulatory authorities primarily to a depository institution s capital category. Among other things, FDICIA authorizes regulatory authorities to take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

Effective January 1, 2015, under the Basel III Capital Rules, the current prompt corrective action requirements for an institution to be well-capitalized is a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater, a CET1 ratio of 6.5% or greater and a Tier 1 leverage ratio of 5 percent or greater.

United Bank was considered a well capitalized institution as of December 31, 2018. Well-capitalized institutions are permitted to engage in a wider range of banking activities, including among other things, the accepting of brokered deposits, and the offering of interest rates on deposits higher than the prevailing rate in their respective markets.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. Banking regulators take into account CRA ratings when considering approval of a proposed transaction. United Bank received a rating of outstanding in its most recent CRA examination.

Cybersecurity

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution s management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution s operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If United fails to observe the regulatory guidance, United could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, United relies on electronic communications and information systems to conduct its operations and to store sensitive data. United employs an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. United employs a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of its defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date, United and United Bank have not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, United s systems and those of its customers and third-party service providers are under constant threat and it is possible that United could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by United and its customers. See Item 1A. Risk Factors for a further discussion of risk related to cybersecurity.

Deposit Acquisition Limitation

Under West Virginia banking law, an acquisition or merger is not permitted if the resulting depository institution or its holding company, including its affiliated depository institutions, would assume additional deposits to cause it to control deposits in the State of West Virginia in excess of twenty five percent (25%) of such total amount of all deposits held by insured depository institutions in West Virginia. This limitation may be waived by the Commissioner of Banking by showing good cause.

Consumer Laws and Regulations

In addition to the banking laws and regulations discussed above, bank subsidiaries are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. Among the more prominent of such laws and regulations are the Truth in Lending Act, the Home Mortgage Disclosure Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Act, the Right to Financial Privacy Act and the Fair Housing Act. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. United s bank subsidiary must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

As discussed above, the Dodd-Frank Act centralized responsibility for consumer financial protection by creating the CFPB, and giving it responsibility for implementing, examining and enforcing compliance with federal consumer protection laws. The CFPB has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans, and credit cards. The CFPB s functions include investigating consumer complaints, rulemaking, supervising and examining banks consumer transactions, and enforcing rules related to consumer financial products and services. Banks with more than $10 billion in assets, such as United Bank, are subject to these federal consumer financial laws.

Incentive Compensation

The Federal Reserve Board reviews, as part of its regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as United, that are not large, complex banking organizations. These reviews are tailored to each organization based on the scope and complexity of the organization s activities and the prevalence of incentive compensation arrangements. The findings of this supervisory initiative will be included in reports of examination. Deficiencies will be incorporated into the organization s supervisory ratings, which can affect the organization s ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In June 2010, the Federal Reserve Board, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors.

In April and May of 2016, the Federal Reserve Board, other federal banking agencies and the SEC (the Agencies) jointly published proposed rulemaking designed to implement provisions of the Dodd-Frank Act prohibiting incentive compensation arrangements that would encourage inappropriate risk taking at a covered institution, which includes a bank or bank holding company with $1 billion or more of assets, such as United. The proposed rule expanded beyond the June 2010 principals based guidance and broadened the scope to include community banks. The proposed rules (i) prohibit incentive-based compensation arrangements that encourage executive officers, employees, directors or principal shareholders to expose the institution to inappropriate risks by providing excessive compensation (based on the standards for excessive compensation adopted pursuant to the FDIA) and (ii) prohibit incentive-based compensation arrangements for executive officers, employees, directors or principal shareholders that could lead to a material financial loss for the institution. The proposed rule requires covered institutions to establish policies and procedures for monitoring and evaluating their compensation practices. As of February 2019, final rules have not been adopted. If these or other regulations are adopted in a form similar to that initially proposed, they will impose limitations on the manner in which we may structure compensation for our executives.

The scope and content of the U.S. banking regulators policies on incentive compensation are continuing to develop. It cannot be determined at this time whether or when a final rule will be adopted and whether compliance with such a final rule will adversely affect the ability of United and United Bank to hire, retain and motivate their key employees.

Item 1A. RISK FACTORS

United is subject to risks inherent to the Company s business. The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair United s business operations. This report is qualified in its entirety by these risk factors.

RISKS RELATING TO UNITED S BUSINESS

Changes in economic and political conditions could adversely affect our earnings, as our borrowers ability to repay loans and the value of the collateral securing our loans decline.

United s success depends, to a certain extent, upon local and national economic and political conditions, as well as governmental monetary policies. Conditions such as an economic recession, rising unemployment, changes in interest rates, money supply and other factors beyond its control may adversely affect United s and United Bank s asset quality, deposit levels and loan demand and, therefore, its earnings. Because United has a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which could have an adverse impact on our earnings. Consequently, declines in the economy in our market area could have a material adverse effect on our financial condition and results of operations.

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The value of certain investment securities is volatile and future declines or other-than-temporary impairments could have a materially adverse effect on future earnings and regulatory capital.

Continued volatility in the fair value for certain investment securities, whether caused by changes in market conditions, interest rates, credit risk of the issuer, the expected yield of the security, or actual defaults in the portfolio could result in significant fluctuations in the value of the securities as well as any regulatory rulemaking such as the Volcker Rule which could exclude or limit the holdings of certain investment securities. This could have a material adverse impact on United s accumulated other comprehensive income and shareholders equity depending on the direction of the fluctuations. Furthermore, future downgrades, defaults or prepayments, including the liquidation of the underlying collateral in certain securities, could result in future classifications as other-than-temporarily impaired. This could have a material impact on United s future earnings, although the impact on shareholders equity will be offset by any amount already included in other comprehensive income for securities that were temporarily impaired.

There are no assurances as to adequacy of the allowance for loan losses.

United believes that its allowance for loan losses is maintained at a level appropriate to absorb any probable losses in its loan portfolio given the current information known to management.

Management establishes the allowance based upon many factors, including, but not limited to:

- historical loan loss experience;
- industry diversification of the commercial loan portfolio;
- the effect of changes in the local real estate market on collateral values;
- the amount of nonperforming loans and related collateral security;
- current economic conditions that may affect the borrower s ability to pay and value of collateral;
- volume, growth and composition of the loan portfolio; and
- other factors management believes are relevant.

These determinations are based upon estimates that are inherently subjective, and their accuracy depends on the outcome of future events, so ultimate losses may differ from current estimates. Changes in economic, operating and other conditions, including changes in interest rates, that are generally beyond United s control, can affect United s loan losses. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of United s control, may require an increase in the allowance for credit losses. United can provide no assurance that its allowance is sufficient to cover actual loan losses should such losses differ substantially from our current estimates.

In addition, federal and state regulators, as an integral part of their respective supervisory functions, periodically review United s allowance for loan losses, and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. Furthermore, if charge-offs in future periods exceed the allowance for loan losses, United will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on United s business, financial condition and results of operations.

Changes in interest rates may adversely affect United s business.

United s earnings, like most financial institutions, are significantly dependent on its net interest income. Net interest income is the difference between the interest income United earns on loans and other assets which earn interest and the interest expense incurred to fund those assets, such as on savings deposits and borrowed money.

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Therefore, changes in general market interest rates, such as a change in the monetary policy of the Board of Governors of the Federal Reserve System or otherwise beyond those which are contemplated by United s interest rate risk model and policy, could have an effect on net interest income. For more information concerning United s interest rate risk model and policy, see the discussion under the caption Quantitative and Qualitative Disclosures About Market Risk under Item 7A.

United is subject to credit risk.

There are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks resulting from changes in economic and industry conditions, risks inherent in dealing with individual borrowers and risks resulting from uncertainties as to the future value of collateral. United seeks to mitigate the risk inherent in its loan portfolio by adhering to prudent loan approval practices. Although United believes that its loan approval criteria are appropriate for the various kinds of loans the Company makes, United may incur losses on loans that meet our loan approval criteria. A significant decline in general economic conditions caused by inflation or deflation, recession, unemployment, changes in government fiscal and monetary policies, acts of terrorism, or other factors beyond our control could cause our borrowers to default on their loan payments, and the collateral values securing such loans to decline and be insufficient to repay any outstanding indebtedness. In such events, we could experience significant loan losses, which could have a material adverse effect on our financial condition and results of operations.

United s information systems may experience an interruption or breach in security.

United relies heavily on communications and information systems to conduct its business. In addition, as part of its business, United collects, processes and retains sensitive and confidential client and customer information. United s facilities and systems, and those of our third party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company s customer relationship management, general ledger, deposit, loan and other systems. While United has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Company s information systems could damage United s reputation, result in a loss of customer business, subject United to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on United s financial condition and results of operations.

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a cyber-attack, other breach of our computer systems or otherwise, could severely harm our business.

In the normal course of our business, we collect, process and retain sensitive and confidential client and customer information on our behalf and on behalf of other third parties. Despite the security measures we have in place, our facilities and systems may be vulnerable to cyber-attacks, security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and / or human errors, or other similar events.

Information security risks for financial institutions like us have increased recently in part because of new technologies, the use of the internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers have engaged in attacks against large financial institutions, particularly denial of service attacks, designed to disrupt key business services such as customer-facing web sites. We are not able to anticipate or implement effective preventive measures against all security breaches of these types. Although we employ detection and response mechanisms designed to contain and mitigate security incidents, early detection may be thwarted by persistent sophisticated attacks and malware designed to avoid detection.

We also face risks related to cyber-attacks and other security breaches in connection with card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on numerous other third party service providers to conduct other aspects of our business operations and face similar risks relating to them. While we conduct security assessments on our higher risk third parties, we cannot be sure that their information security protocols are sufficient to withstand a cyber-attack or other security breach.

Any cyber-attack or other security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information could severely damage our reputation, erode confidence in the security of our systems, products and services, expose us to the risk of litigation and liability, disrupt our operations and have a material adverse effect on our business.

United s business continuity plans or data security systems could prove to be inadequate, resulting in a material interruption in, or disruption to, its business and a negative impact on results of operations.

United relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems, whether due to severe weather, natural disasters, cyber-attack, acts of war or terrorism, criminal activity or other factors, could result in failures or disruptions in general ledger, deposit, loan, customer relationship management and other systems. While United has disaster recovery and other policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of United s information systems could damage its reputation, result in a loss of customer business, subject it to additional regulatory scrutiny or expose it to civil litigation and possible financial liability, any of which could have a material adverse effect on results of operations.

The negative economic effects caused by terrorist attacks, including cyber-attacks, potential attacks and other destabilizing events would likely contribute to the deterioration of the quality of United s loan portfolio and could reduce its customer base, level of deposits, and demand for its financial products such as loans.

High inflation, natural disasters, acts of terrorism, including cyber-attacks, an escalation of hostilities or other international or domestic occurrences, and other factors could have a negative impact on the economy of the Mid-Atlantic regions in which United operates. An additional economic downturn in its markets would likely contribute to the deterioration of the quality of United s loan portfolio by impacting the ability of its customers to repay loans, the value of the collateral securing loans, and may reduce the level of deposits in its bank and the stability of its deposit funding sources. An additional economic downturn could also have a significant impact on the demand for United s products and services. The cumulative effect of these matters on United s results of operations and financial condition would likely be adverse and material.

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Loss of United s Chief Executive Officer or other executive officers could adversely affect its business.

United s success is dependent upon the continued service and skills of its executive officers and senior management. If United loses the services of these key personnel, it could have a negative impact on United s business because of their skills, years of industry experience and the difficulty of promptly finding qualified replacement personnel. The services of Richard M. Adams, United s Chief Executive Officer, would be particularly difficult to replace. United and Mr. Adams are parties to an Employment Agreement providing for his continued employment by United through March 31, 2022.

United operates in a highly competitive market.

United faces a high degree of competition in all of the markets it serves. United considers all of West Virginia to be included in its market area. This area includes the five largest West Virginia Metropolitan Statistical Areas (MSA): the Parkersburg MSA, the Charleston MSA, the Huntington MSA, the Morgantown MSA and the Wheeling MSA. United serves the Ohio counties of Lawrence, Belmont, Jefferson and Washington and Fayette county in Pennsylvania primarily because of their close proximity to the Ohio and Pennsylvania borders and United banking offices located in those counties or in nearby West Virginia. United s Virginia markets include the Maryland, northern Virginia and Washington, D.C. MSA, the Winchester MSA, the Harrisonburg MSA, and the Charlottesville MSA. United considers all of the above locations to be the primary market area for the business of its banking subsidiaries.

There is a risk that aggressive competition could result in United controlling a smaller share of these markets. A decline in market share could lead to a decline in net income which would have a negative impact on stockholder value.

United may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. United has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, or other institutional clients. Recent defaults by financial services institutions, and even rumors or questions about a financial institution or the financial services industry in general, have led to marketwide liquidity problems and could lead to losses or defaults by United or other institutions. Any such losses could adversely affect United s financial condition or results of operations.

United is subject to extensive government regulation and supervision.

United is subject to extensive federal and state regulation, supervision and examination. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect United s lending practices, capital structure, investment practices, dividend policy, operations and growth, among other things. These regulations also impose obligations to maintain appropriate policies, procedures and controls, among other things, to detect, prevent and report money laundering and terrorist financing and to verify the identities of United s customers. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The Dodd-Frank Act, enacted in July 2010, instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect United in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products United may offer and/or increase the ability of nonbanks to offer competing financial services and products, among other things. United expends substantial effort and incurs costs to improve its systems, audit capabilities, staffing and training in order to satisfy regulatory requirements, but the regulatory authorities may determine that such efforts are insufficient. Failure to comply with relevant laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on United s business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

In the normal course of business, United and its subsidiaries are routinely subject to examinations and challenges from federal and state tax authorities regarding the amount of taxes due in connection with investments that the Company has made and the businesses in which United has engaged. Recently, federal and state taxing authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in the Company s favor, they could have a material adverse effect on United s financial condition and results of operations.

The Consumer Financial Protection Bureau (CFPB) may reshape the consumer financial laws through rulemaking and enforcement of the prohibitions against unfair, deceptive and abusive business practices. Compliance with any such change may impact the business operations of depository institutions offering consumer financial products or services, including United Bank.

The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The concept of what may be considered to be an abusive practice is relatively new under the law. Moreover, United Bank is supervised and examined by the CFPB for compliance with the CFPB s regulations and policies. The costs and limitations related to this additional regulatory reporting regimen have yet to be fully determined, although they may be material and the limitations and restrictions that will be placed upon United Bank with respect to its consumer product offering and services may produce significant, material effects on United Bank (and United s) profitability.

United may elect or be compelled to seek additional capital in the future, but capital may not be available when it is needed.

United is required by federal and state regulatory authorities to maintain adequate levels of capital to support the Company s operations. In addition, United may elect to raise additional capital to support the Company s business or to finance acquisitions, if any, or United may otherwise elect to raise additional capital. In that regard, a number of financial institutions have recently raised considerable amounts of capital as a result of deterioration in their results of operations and financial condition arising from the turmoil in the mortgage loan market, deteriorating economic conditions, declines in real estate values and other factors, which may diminish United s ability to raise additional capital.

United s ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside the Company s control, and on United s financial performance. Accordingly, United cannot be assured of its ability to raise additional capital if needed or on terms acceptable to the Company. If United cannot raise additional capital when needed, it may have a material adverse effect on the Company s financial condition, results of operations and prospects.

United is subject to higher regulatory capital requirements and failure to comply with these standards may impact dividend payments, equity repurchases and executive compensation.

On July 2, 2013, the Federal Reserve published final rules that substantially amend the regulatory risk-based capital rules applicable to United and United Bank. The rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act, or the Basel III Capital Rules. The new rules were effective for United and United Bank on January 1, 2015 (subject to a phase-in period for certain of the new rules).

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The Basel III Capital Rules, among other things, (i) introduce a capital measure called Common Equity Tier 1 , or CET1, (ii) specify that Tier 1 capital consists of CET1 and Additional Tier 1 Capital instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/ adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments from capital as compared to existing regulations, and particularly as applied to CET1.

Under the Basel III Capital Rules, the initial minimum capital and leverage ratios as of January 1, 2015 are as follows:

4.5% CET1 to risk-weighted assets.

6.0% Tier 1 capital to risk-weighted assets.

8.0% Total capital to risk-weighted assets.

4.0% Tier 1 capital to average assets.

In addition to raising minimum capital and leverage ratios, the Basel III Capital Rules also establish a capital conservation buffer that is designed to absorb losses during periods of economic stress. The capital conservation buffer will be phased in from January 1, 2016 to January 1, 2019 in equal annual installments, and when fully implemented the capital conservation buffer will effectively add 2.5% to each of the minimum capital ratios. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

With respect to United s banking subsidiary, United Bank, the Basel III Capital Rules also revise the prompt corrective action regulations pursuant to Section 38 of the Federal Deposit Insurance Act, by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Capital Rules do not change the total risk-based capital requirement for any prompt corrective action category.

The Basel III Capital Rules prescribe a standardized approach for risk weightings that expand the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset categories. In particular, the Basel III Capital Rules increase risk weights that apply to past-due exposures and high volatility commercial real estate loans.

The Basel III changes have resulted in generally higher minimum capital ratios that require United and its subsidiaries to maintain capital buffers above minimum requirements to avoid restrictions on capital distributions and executive bonus payments. In addition, the application of more stringent capital requirements for United could, among other things, result in lower returns on invested capital, require the raising of additional capital and result in additional regulatory actions if United were to be unable to comply with such requirements. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit United s ability to make distributions, including paying dividends.

In addition, in the current economic and regulatory environment, regulators of banks and bank holding companies have become more likely to impose capital requirements on bank holding companies and banks that are more stringent than those required by applicable existing regulations.

Failure to maintain effective internal controls over financial reporting in the future could impair United s ability to accurately and timely report its financial results or prevent fraud, resulting in loss of investor confidence and adversely affecting United s business and stock price.

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Effective internal controls over financial reporting are necessary to provide reliable financial reports and prevent fraud. Management believes that United s internal controls over financial reporting are currently effective. Management will continually review and analyze the Company s internal controls over financial reporting for Sarbanes-Oxley Section 404 compliance. Any failure to maintain, in the future, an effective internal control environment could impact United s ability to report its financial results on an accurate and timely basis, which could result in regulatory actions, loss of investor confidence, and adversely impact United s business and stock price.

United could face unanticipated environmental liabilities or costs related to real property owned or acquired through foreclosure. Compliance with federal, state and local environmental laws and regulations, including those related to investigation and clean-up of contaminated sites, could have a negative effect on expenses and results of operations.

A significant portion of United s loan portfolio is secured by real property. During the ordinary course of business, United may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, United may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require United to incur substantial expenses and may materially reduce the affected property s value or limit United s ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase exposure to environmental liability. Although United has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on results of operations.

United s earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies.

The policies of the Federal Reserve impact United significantly. The Federal Reserve regulates the supply of money and credit in the United States. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments we hold. Those policies determine to a significant extent our cost of funds for lending and investing. Changes in those policies are beyond our control and are difficult to predict. Federal Reserve policies can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. For example, a tightening of the money supply by the Federal Reserve could reduce the demand for a borrower s products and services. This could adversely affect the borrower s earnings and ability to repay its loan, which could have a material adverse effect on our financial condition and results of operations.

New accounting or tax pronouncements or interpretations may be issued by the accounting profession, regulators or other government bodies which could change existing accounting methods. Changes in accounting methods could negatively impact United s results of operations and financial condition.

Current accounting and tax rules, standards, policies and interpretations influence the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time. Events that may not have a direct impact on United, such as the bankruptcy of major U.S. companies, have resulted in legislators, regulators and authoritative bodies, such as the Financial Accounting Standards Board, the SEC, the Public Company Accounting Oversight Board, and various taxing authorities, responding by adopting and/or proposing substantive revision to laws, regulations, rules, standards, policies, and interpretations. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. A change in accounting standards may adversely affect reported financial condition and results of operations.

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United s vendors could fail to fulfill their contractual obligations, resulting in a material interruption in, or disruption to, its business and a negative impact on results of operations.

United is dependent upon third parties for certain information system, data management and processing services and to provide key components of its business infrastructure. United has entered into subcontracts for the supply of current and future services, such as data processing, mortgage loan processing and servicing, and certain property management functions. These services must be available on a continuous and timely basis and be in compliance with any regulatory requirements. Failure to do so could substantially harm United s business.

United often purchases services from vendors under agreements that typically can be terminated on a periodic basis. There can be no assurance, however, that vendors will be able to meet their obligations under these agreements or that United will be able to compel them to do so. Risks of relying on vendors include the following:

If an existing agreement expires or a certain service is discontinued by a vendor, then United may not be able to continue to offer its customers the same breadth of products and its operating results would likely suffer unless it is able to find an alternate supply of a similar service.

Agreements United may negotiate in the future may commit it to certain minimum spending obligations. It is possible United will not be able to create the market demand to meet such obligations.

If market demand for United s products increases suddenly, its current vendors might not be able to fulfill United s commercial needs, which would require it to seek new arrangements or new sources of supply, and may result in substantial delays in meeting market demand.

United may not be able to control or adequately monitor the quality of services it receives from its vendors. Poor quality services could damage United s reputation with its customers.

In addition, these third party service providers are sources of operational and informational security risk to United, including risks associated with operational errors, information system interruptions or breaches, and unauthorized disclosures of sensitive or confidential client or customer information. If third party service providers encounter any of these issues, or if United has difficulty communicating with them, United could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage, and litigation risk that could have a material adverse effect on our results of operations or our business.

Potential problems with vendors such as those discussed above could have a significant adverse effect on United s business, lead to higher costs and damage its reputation with its customers and, in turn, have a material adverse effect on its financial condition and results of operations.

RISKS ASSOCIATED WITH UNITED S COMMON STOCK

United s stock price can be volatile.

Stock price volatility may make it more difficult for United shareholders to resell their common stock when they want and at prices they find attractive. United s stock price can fluctuate significantly in response to a variety of factors, including, among other things:

Actual or anticipated negative variations in quarterly results of operations;

Negative recommendations by securities analysts;

Poor operating and stock price performance of other companies that investors deem comparable to United;

News reports relating to negative trends, concerns and other issues in the financial services industry or the economy in general;

Negative perceptions in the marketplace regarding United and/or its competitors;

New technology used, or services offered, by competitors;

Adverse changes in interest rates or a lending environment with prolonged low interest rates;

Adverse changes in the real estate market;

Negative economic news;

Failure to integrate acquisitions or realize anticipated benefits from acquisitions;

Adverse changes in government regulations; and

Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause United s stock price to decrease regardless of operating results.

Dividend payments by United s subsidiaries to United and by United to its shareholders can be restricted.

The declaration and payment of future cash dividends will depend on, among other things, United s earnings, the general economic and regulatory climate, United s liquidity and capital requirements, and other factors deemed relevant by United s board of directors. Federal Reserve Board policy limits the payment of cash dividends by bank holding companies, without regulatory approval, and requires that a holding company serve as a source of strength to its banking subsidiaries.

United s principal source of funds to pay dividends on its common stock is cash dividends from its subsidiaries. The payment of these dividends by its subsidiaries is also restricted by federal and state banking laws and regulations. As of December 31, 2018, approximately $179.1 million was available for dividend payments from United Bank to United without regulatory approval.

An investment in United common stock is not an insured deposit.

United common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation, any other deposit insurance fund or by any other public or private entity. Investment in United common stock is inherently risky for the reasons described in this section and elsewhere in this prospectus and joint proxy statement and is subject to the same market forces that affect the price of common stock in any company. As a result, someone who acquires United common stock, could lose some or all of their investment.

Certain banking laws may have an anti-takeover effect.

Provisions of federal banking laws, including regulatory approval requirements, could make it more difficult to be acquired by a third party, even if perceived to be beneficial to United s shareholders. These provisions effectively inhibit a non-negotiated merger or other business combination, which could adversely affect the market price of United s common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

None

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Item 2. PROPERTIES

Offices

United is headquartered in the United Center at 500 Virginia Street, East, Charleston, West Virginia. United s executive offices are located in Parkersburg, West Virginia at Fifth and Avery Streets. United operates one hundred and thirty-nine (139) full service offices fifty-one (51) offices located throughout West Virginia, eighty-three (83) offices in the Shenandoah Valley region of Virginia and the Northern Virginia, Maryland and Washington, D.C. metropolitan area, four (4) in southwestern Pennsylvania and one (1) in southeastern Ohio. United owns all of its West Virginia facilities except for two in the Charleston area and one each in areas of Beckley, Wheeling, Parkersburg, and Clarksburg, all of which are leased under operating leases. United owns most of its facilities in the Shenandoah Valley region of Virginia except for nine offices, two in Winchester, one each in Charlottesville, Front Royal, Harrisonburg, Stanardsville, Waynesboro, Weyers Cave and Woodstock, all of which are leased under operating leases. United leases all of its facilities under operating lease agreements in the Northern Virginia, Maryland and Washington, D.C. areas except for five offices, two in Arlington, one each in Alexandria, Chantilly and Vienna, Virginia, which are owned facilities. United owns all of its Pennsylvania facilities. In Ohio, United owns its one facility in Bellaire. United leases operations centers in the Charleston, West Virginia and Chantilly, Virginia areas and owns one operations center in the Morgantown, West Virginia area.

Item 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

UNITED BANKSHARES, INC.

FORM 10-K, PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock

As of January 31, 2019, 200,000,000 shares of common stock, par value $2.50 per share, were authorized for United, of which 105,250,136 were issued, including 3,145,733 shares held as treasury shares. The outstanding shares are held by approximately 6,475 shareholders of record, as well as 61,123 shareholders in street name as of January 31, 2019. The unissued portion of United s authorized common stock (subject to registration approval by the SEC) and the treasury shares are available for issuance as the Board of Directors determines advisable. United offers its shareholders the opportunity to invest dividends in shares of United stock through its dividend reinvestment plan. United has also established stock option plans and a stock bonus plan as incentive for certain eligible officers. In addition to the above incentive plans, United is occasionally involved in certain mergers in which additional shares could be issued and recognizes that additional shares could be issued for other appropriate purposes.

In August of 2017, United s Board of Directors approved a stock repurchase plan, whereby United could buy up to 2,000,000 shares of its common stock in the open market. This plan was completed in 2018 and the Board of Directors approved a new plan in November of 2018 to repurchase up to 3,352,000 shares of the Company s common stock on the open market at prevailing prices through November 7, 2019. As of December 31, 2018, United still has 2,482,000 shares available for repurchase under the plan. During 2018, 2,870,000 shares were repurchased under stock repurchase plans. During 2017, no shares were repurchased under a stock repurchase plan.

The Board of Directors believes that the availability of authorized but unissued common stock of United is of considerable value if opportunities should arise for the acquisition of other businesses through the issuance of United s stock. Shareholders do not have preemptive rights, which allow United to issue additional authorized shares without first offering them to current shareholders.

Currently, United has only one voting class of stock issued and outstanding and all voting rights are vested in the holders of United s common stock. On all matters subject to a vote of shareholders, the shareholders of United will be entitled to one vote for each share of common stock owned. Shareholders of United have cumulative voting rights with regard to election of directors.

United s common stock is traded over the counter on the National Association of Securities Dealers Automated Quotations System, Global Select Market (NASDAQ) under the trading symbol UBSI. The closing sale price reported for United s common stock on February 25, 2019, the last practicable date, was $38.49.

On December 23, 2008, the shareholders of United authorized the issuance of preferred stock up to 50,000,000 shares with a par value of $1.00 per share. The authorized preferred stock may be issued by the Company s Board of Directors in one or more series, from time to time, with each such series to consist of such number of shares and to have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, as shall be stated in the resolution or resolutions providing for the issuance of such series adopted by the Board of Directors. Currently, no shares of preferred stock have been issued.

The authorization of preferred stock will not have an immediate effect on the holders of the Company s common stock. The actual effect of the issuance of any shares of preferred stock upon the rights of the holders of common stock cannot be stated until the Board of Directors determines the specific rights of any shares of preferred stock. However, the effects might include, among other things, restricting dividends on common stock, diluting the voting power of common stock, reducing the market price of common stock or impairing the liquidation rights of the common stock without further action by the shareholders. Holders of the common stock will not have preemptive rights with respect to the preferred stock.

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There are no preemptive or conversion rights or, redemption or sinking fund provisions with respect to United s stock. All of the issued and outstanding shares of United s stock are fully paid and non-assessable.

Stock Performance Graph

The following Stock Performance Graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that United specifically incorporates it by reference into such filing.

The following graph compares United s cumulative total shareholder return (assuming reinvestment of dividends) on its common stock for the five-year period ending December 31, 2018, with the cumulative total return (assuming reinvestment of dividends) of the Standard and Poor s Midcap 400 Index and with the NASDAQ Bank Index. The cumulative total shareholder return assumes a $100 investment on December 31, 2013 in the common stock of United and each index and the cumulative return is measured as of each subsequent fiscal year-end. There is no assurance that United s common stock performance will continue in the future with the same or similar trends as depicted in the graph.

	Period Ending					
	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
United Bankshares, Inc.	100.00	123.86	126.57	163.55	127.36	118.39
NASDAQ Bank Index	100.00	104.92	114.20	157.56	166.15	139.28
S&P Mid-Cap Index	100.00	109.74	107.34	129.60	150.63	133.91

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Issuer Repurchases

The table below includes certain information regarding United s purchase of its common shares during the three months ended December 31, 2018:

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)
10/01 10/31/2018	623,100	$ 34.65	623,100	0
11/01 11/30/2018	20,005	$ 35.56	20,000	3,332,000
12/01 12/31/2018	850,000	$ 31.88	850,000	2,482,000
Total	1,493,105	$ 33.09		

(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 December 31, 2018, 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 December 31, 2018, the following shares were purchased for the deferred compensation plan: November 2018 5 shares at an average price of $35.83.

(3) In November of 2018, United s Board of Directors approved a repurchase plan to repurchase up to 3,352,000 shares of United s common stock on the open market (the 2018 Plan). The timing, price and quantity of purchases under the plans are at the discretion of management and the plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.

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Item 6. SELECTED FINANCIAL DATA

The following consolidated selected financial data is derived from United s audited financial statements as of and for the five years ended December 31, 2018. The selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes contained elsewhere in this report.

	Five Year Summary				
(Dollars in thousands, except per share data)	**2018**	**2017**	**2016**	**2015**	**2014**
Summary of Operations:					
Total interest income	$ 717,715	$ 623,806	$ 470,341	$ 423,630	$ 418,542
Total interest expense	129,070	74,809	45,010	39,506	42,834
Net interest income	588,645	548,997	425,331	384,124	375,708
Provision for loan losses	22,013	28,406	24,509	22,574	21,937
Other income	128,712	131,645	70,032	73,626	80,962
Other expense	368,179	367,409	248,196	231,687	239,847
Income taxes	70,823	134,246	75,575	65,530	64,998
Net income	256,342	150,581	147,083	137,959	129,888
Cash dividends	141,610	131,755	98,696	89,667	88,522
Per common share:					
Net income:					
Basic	2.46	1.54	2.00	1.99	1.93
Diluted	2.45	1.54	1.99	1.98	1.92
Cash dividends	1.36	1.33	1.32	1.29	1.28
Book value per share	31.78	30.85	27.59	24.61	23.90
Selected Ratios:					
Return on average shareholders equity	7.84%	5.09%	7.67%	8.10%	8.13%
Return on average assets	1.36%	0.85%	1.10%	1.12%	1.11%
Dividend payout ratio	55.24%	87.50%	67.10%	65.00%	68.15%
Selected Balance Sheet Data:					
Average assets	$ 18,848,027	$ 17,617,429	$ 13,376,803	$ 12,265,115	$ 11,652,776
Investment securities	2,543,727	2,071,645	1,403,638	1,204,182	1,316,040
Loans held for sale	249,846	265,955	8,445	10,681	8,680
Total loans	13,422,222	13,011,421	10,341,137	9,384,080	9,104,652
Total assets	19,250,498	19,058,959	14,508,892	12,577,944	12,328,811
Total deposits	13,994,749	13,830,591	10,796,867	9,341,527	9,045,485
Long-term borrowings	1,499,103	1,363,977	1,172,026	1,015,249	1,105,314
Total liabilities	15,998,874	15,818,429	12,273,145	10,865,309	10,672,651
Shareholders equity	3,251,624	3,240,530	2,235,747	1,712,635	1,656,160

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Item 7. 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 haven 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.

The discussion in Item 1A, Risk Factors, lists some of the factors that could cause United s actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.

ACQUISITIONS

On April 21, 2017, United acquired 100% of the outstanding common stock of Cardinal Financial Corporation (Cardinal), headquartered in Tysons Corner, Virginia. The acquisition of Cardinal expands United s existing footprint in the Washington, D.C. Metropolitan Statistical Area (MSA). Cardinal also operated George Mason Mortgage, LLC (George Mason), a residential mortgage lending company based in Fairfax, Virginia with offices located in Virginia, Maryland, North Carolina, South Carolina and the District of Columbia. As a result of the merger, George Mason became an indirectly-owned subsidiary of United. The Cardinal merger was accounted for under the acquisition method of accounting. At consummation, Cardinal had assets of $4.14 billion, portfolio loans of $3.31 billion and deposits of $3.34 billion.

In addition, after the close of business on June 3, 2016, United acquired 100% of the outstanding common stock of Bank of Georgetown, a privately held community bank headquartered in Washington, D.C. The acquisition of Bank of Georgetown enhances United s existing footprint in the Washington, D.C. MSA. The merger was accounted for under the acquisition method of accounting. At consummation, Bank of Georgetown had assets of approximately $1.28 billion, loans of $999.77 million, and deposits of $971.37 million.

Both the results of operations of Cardinal and Bank of Georgetown are included in the consolidated results of operations from their respective dates of acquisition. Also, United consolidated its banking subsidiaries during the fourth quarter of 2017. As a result of the Cardinal acquisition, the year of 2018 and 2017 were impacted by increased levels of average balances, income, and expense. In addition, the fourth quarter and year of 2017 included merger-related expenses of $1.78 million and $26.84 million, respectively, from the Cardinal acquisition.

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 consolidated financial statements and the notes to 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 December 31, 2018, but prior to the date these financial statements were issued, for potential recognition or disclosure required in these financial statements.

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, the allowance for loan losses as a percentage of non-acquired loans and noninterest income excluding a net gain on the sale of bank premises, noncash, other-than-temporary impairment charges on certain investment securities and 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.

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 loan losses, the valuation of investment securities and the related other-than-temporary impairment analysis, the accounting for acquired loans and the calculation of the income tax provision to be the accounting areas that require the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available. The most significant accounting policies followed by United are presented in Note A, Notes to Consolidated Financial Statements.

Allowance for Loan Losses

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 December 31, 2018, the allowance for loan losses was $76.7 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

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10% increase in the allowance for loan losses would have required $7.7 million in additional allowance (funded by additional provision for credit losses), which would have negatively impacted the year of 2018 net income by approximately $6.0 million, after-tax or $0.06 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 A, Notes to Consolidated Financial Statements. A discussion of the factors leading to changes in the amount of the allowance for loan losses is included in the Provision for Loan Losses section of this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A). For a discussion of concentrations of credit risk, see Item 1, under the caption of Loan Concentrations in this Form 10-K.

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. 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, 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. For additional information on management s consideration of investment valuation and other-than-temporary impairment, see Note C and Note U, Notes to 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 is 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.

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Acquired loans are divided into loans with evidence of credit quality deterioration, which are accounted for under Accounting Standards Codification (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.

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 B and D, Notes to Consolidated Financial Statements for additional 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 M, Notes to 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 December 31, 2018, approximately 14.24% of total assets, or $2.74 billion, consisted of financial instruments recorded at fair value. Of this total, approximately 90.17% or $2.47 billion of these financial instruments used valuation methodologies involving observable market data, collectively Level 1 and Level 2 measurements, to determine fair value. Approximately 9.83% or $269.58 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 loans held for sale at our mortgage banking segment and Trup Cdos classified as available-for-sale. At December 31, 2018, only $3.00 million 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 U 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 is further discussed in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

2018 COMPARED TO 2017

United s total assets as of December 31, 2018 were $19.25 billion, increasing $191.54 million or 1.00% from December 31, 2017. The increase was mainly due to increases of $410.80 million or 3.16% in portfolio loans and $472.08 million or 22.79% in investment securities. Cash and cash equivalents decreased $645.77 million or 38.76%, loans held for sale decreased $16.11 million or 6.06%, and other assets decreased $27.16 million or 5.61%. Total liabilities increased $180.45 million or 1.14% from year-end 2017 mainly the result of deposits increasing $164.16 million or 1.19%. Borrowings remained flat, increasing $8.87 million or less than 1% while accrued expenses and other liabilities increased $6.71 million or 4.61%. Shareholders equity was relatively flat from December 31, 2017, increasing $11.09 million or less than 1%.

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

Cash and Cash Equivalents

Cash equivalents at December 31, 2018 decreased $645.77 million or 38.76% from year-end 2017. Of this total decrease, cash and due from banks decreased $8.86 million or 4.50% while interest-bearing deposits with other banks decreased $636.93 million or 43.37% as United used excess cash to mainly invest in securities and grow loans. Federal funds increased $14 thousand or 1.77%. During the year of 2018, net cash of $292.53 million was provided by operating activities while $871.51 million and $66.79 million were used in investing activities and financing activities, respectively. Further details related to changes in cash and cash equivalents are presented in the Consolidated Statements of Cash Flows.

Securities

Total investment securities at December 31, 2018 increased $472.08 million or 22.79% from year-end 2017. Securities available for sale increased $448.28 million or 23.73%. This change in securities available for sale reflects $442.73 million in sales, maturities and calls of securities, $917.91 million in purchases, and a decrease of $11.91 million in market value. Securities held to maturity declined $429 thousand or 2.10% from year-end 2017 due to calls and maturities of securities. Equity securities, now carried at fair value, were $9.73 million at December 31, 2018. Other investment securities increased $14.49 million or 8.92% from year-end 2017 due mainly to the purchase of Federal Home Loan Bank (FHLB) stock.

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The following is a summary of available for sale securities at December 31:

	2018	2017	2016
		(In thousands)	
U.S. Treasury and obligations of U.S. Government corporations and agencies	$ 86,285	$ 114,735	$ 95,247
States and political subdivisions	212,670	303,101	196,350
Mortgage-backed securities	1,611,906	1,283,933	896,472
Asset-backed securities	272,459	109,829	217
Marketable equity securities	0	9,712	12,436
Trust preferred collateralized debt obligations	6,176	37,856	48,558
Single issue trust preferred securities	8,754	13,417	13,363
Corporate securities	162,634	28,101	14,996
TOTAL AVAILABLE FOR SALE SECURITIES, at amortized cost	$ 2,360,884	$ 1,900,684	$ 1,277,639
TOTAL AVAILABLE FOR SALE SECURITIES, at fair value	$ 2,337,039	$ 1,888,756	$ 1,259,214

The following is a summary of held to maturity securities at December 31:

	2018	2017	2016
		(In thousands)	
U.S. Treasury and obligations of U.S. Government corporations and agencies	$ 5,074	$ 5,187	$ 5,295
States and political subdivisions	5,473	5,797	8,598
Mortgage-backed securities	20	23	30
Single issue trust preferred securities	9,412	9,401	19,315
Other corporate securities	20	20	20
TOTAL HELD TO MATURITY SECURITIES, at amortized cost	$ 19,999	$ 20,428	$ 33,258
TOTAL HELD TO MATURITY SECURITIES, at fair value	$ 18,655	$ 20,018	$ 31,178

At December 31, 2018, gross unrealized losses on available for sale securities were $29.71 million. Securities in an unrealized loss position at December 31, 2018 consisted primarily of state and political subdivision securities, and agency commercial and residential mortgage-backed securities. The state and political subdivisions securities relate to securities issued by various municipalities. The agency commercial and residential mortgage-backed securities relate to commercial and residential properties and provide a guaranty of full and timely payments of principal and interest by the issuing agency.

As of December 31, 2018, United s mortgage-backed securities had an amortized cost of $1.61 billion, with an estimated fair value of $1.59 billion. The portfolio consisted primarily of $1.05 billion in agency residential mortgage-backed securities with a fair value of $1.04 billion, $3.93 million in non-agency residential mortgage-backed securities with an estimated fair value of $4.26 million, and $560.63 million in commercial agency mortgage-backed securities with an estimated fair value of $554.60 million.

As of December 31, 2018, United s corporate securities had an amortized cost of $459.46 million, with an estimated fair value of $455.64 million. The portfolio consisted primarily of $6.18 million in Trup Cdos with a fair value of $5.92 million and $18.17 million in single issue trust preferred securities with an estimated fair value of $16.33 million. In addition to the trust preferred securities, the Company held positions in various other corporate securities, including asset-backed securities with an amortized cost of $272.46 million and a fair value of $271.97 million and other corporate securities, with an amortized cost of $162.65 million and a fair value of $161.42 million.

The Trup Cdos consisted of pools of trust preferred securities issued by trusts related to financial institutions. During the first quarter of 2018, seven Trup Cdos were sold and one Trup Cdo was redeemed at par. During the second quarter of 2018, one additional Trup Cdo was redeemed at par. United s Trup Cdos had a fair value of $5.92 million as of December 31, 2018. As of December 31, 2018, all of the Trup Cdos were rated below investment grade. United s single issue trust preferred securities had a fair value of $16.33 million as of December 31, 2018. Of the $16.33 million, $3.88 million or 23.77% were investment grade; $5.16 million or 31.58% were split rated; $2.13 million or 13.03% were below investment grade; and $5.16 million or 31.62% were unrated. The two largest exposures accounted for 71.62% of the $16.33 million. These included SunTrust Bank at $6.53 million and Emigrant Bank at $5.16 million. All single-issue trust preferred securities are currently receiving full scheduled principal and interest payments.

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The following is a summary of available for sale single-issue trust preferred securities as of December 31, 2018:

Security	Moodys	S&P	Fitch	Amortized Cost	Fair Value	Unrealized Loss/(Gain)
				(Dollars in thousands)		
Emigrant Bank	NR	NR	WD	$ 5,724	$ 5,163	$ 561
M&T Bank	NR	BBB-	BBB-	3,030	3,199	(169)
				$ 8,754	$ 8,362	$ 392

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 (amortized cost balance of $7.43 million) and Royal Bank of Scotland (amortized cost balance of $977 thousand).

During 2018, United recognized net other-than-temporary impairment charges totaling $1.76 million. Of the $1.76 million, $1.46 million was recognized during the fourth quarter of 2018 related to securities in an unrealized loss position that were identified to be sold. Other than these securities that were identified to be sold, management does not believe that any other individual security with an unrealized loss as of December 31, 2018 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 C, Notes to Consolidated Financial Statements.

Loans held for sale

Loans held for sale decreased $16.11 million or 6.06% from year-end 2017 mainly due to a $27.42 million transfer from loans held for sale to portfolio loans. Loan originations for the year of 2018 were $1.99 billion while loans sales were also $1.98 billion. Loans held for sale were $249.85 million at December 31, 2018 as compared to $265.96 million at year-end 2017.

Portfolio Loans

Loans, net of unearned income, increased $410.80 million or 3.16% from year-end 2017. Since year-end 2017, residential real estate loans increased $505.22 million or 16.86% and consumer loans increased $250.27 million or 35.04%, due mainly to an increase in automobile loans. Partially offsetting these increases was a decrease in commercial, financial and agricultural loans of $258.86 million or 3.31% as commercial real estate loans decreased $217.52 million or 3.74% and commercial loans (not secured by real estate) decreased $41.34 million or 2.07%. In addition, construction and land development loans decreased $94.44 million or 6.28%.

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A summary of loans outstanding is as follows:

	December 31				
(In thousands)	**2018**	**2017**	**2016**	**2015**	**2014**
Commercial, financial & agricultural	$ 7,553,044	$ 7,811,906	$ 6,088,775	$ 5,426,335	$ 5,353,991
Residential real estate	3,501,393	2,996,171	2,403,437	2,268,685	2,263,354
Construction & land development	1,410,468	1,504,907	1,255,738	1,273,054	1,133,251
Consumer	964,627	714,353	608,769	430,878	368,896
Less: Unearned income	(7,310)	(15,916)	(15,582)	(14,872)	(14,840)
Total loans	13,422,222	13,011,421	10,341,137	9,384,080	9,104,652
Allowance for loan losses	(76,703)	(76,627)	(72,771)	(75,726)	(75,529)
TOTAL LOANS, NET	$ 13,345,519	$ 12,934,794	$ 10,268,366	$ 9,308,354	$ 9,029,123
Loans held for sale	$ 249,846	$ 265,955	$ 8,445	$ 10,681	$ 8,680

The following table summarizes the outstanding balances of portfolio loans originated and acquired, by type, as of December 31, 2018 and December 31, 2017:

	December 31, 2018				
(In thousands)	**Commercial, financial and agricultural**	**Residential real estate**	**Construction & land development**	**Consumer**	**Total**
Originated	$ 4,887,688	$ 2,686,817	$ 1,179,676	$ 959,392	$ 9,713,573
Acquired	2,665,356	814,576	230,792	5,235	3,715,959
Total gross loans	$ 7,553,044	$ 3,501,393	$ 1,410,468	$ 964,627	$ 13,429,532

	December 31, 2017				
(In thousands)	**Commercial, financial and agricultural**	**Residential real estate**	**Construction & land development**	**Consumer**	**Total**
Originated	$ 4,647,745	$ 1,974,804	$ 1,032,629	$ 707,661	$ 8,362,839
Acquired	3,164,161	1,021,367	472,278	6,692	4,664,498
Total gross loans	$ 7,811,906	$ 2,996,171	$ 1,504,907	$ 714,353	$ 13,027,337

The following table shows the maturity of commercial, financial, and agricultural loans and real estate construction and land development loans as of December 31, 2018:

(In thousands)	**Less Than One Year**	**One To Five Years**	**Over Five Years**	**Total**
Commercial, financial & agricultural	$ 1,392,338	$ 2,393,738	$ 3,766,968	$ 7,553,044
Construction & land development	458,418	757,701	194,349	1,410,468

Total	$ 1,850,756	$ 3,151,439	$ 3,961,317	$ 8,963,512

At December 31, 2018, commercial, financial and agricultural loans and real estate construction and land development loans by maturity are as follows:

(In thousands)	Less Than One Year	One to Five Years	Over Five Years	Total
Outstanding with fixed interest rates	$ 493,638	$ 1,662,848	$ 1,795,059	$ 3,851,545
Outstanding with adjustable rates	1,357,118	1,488,591	2,166,258	5,011,967
	$ 1,850,756	$ 3,151,439	$ 3,961,317	$ 8,963,512

More information relating to loans is presented in Note D, Notes to Consolidated Financial Statements.

Other Assets

Other assets decreased $27.16 million or 5.61% from year-end 2017. Deferred taxes decreased $6.35 million and income tax receivable decreased $16.73 million. In addition, other real estate owned decreased $7.48 million due to sales and declines in fair value and core deposit intangibles decreased $8.04 million due to amortization. Partially offsetting these decreases were increases in bank owned life insurance policies of $4.98 million due to change in fair value and dealer reserve of $6.14 million due to an increase in automobile loans.

Deposits

Deposits represent United s primary source of funding. Total deposits at December 31, 2018 increased $164.16 million or 1.19%. In terms of composition, interest-bearing deposits were relatively flat, increasing $42.03 million or less than 1% while noninterest-bearing deposits increased $122.13 million or 2.84% from December 31, 2017.

Noninterest-bearing deposits consists of demand deposit and noninterest bearing money market (MMDA) account balances. The $122.13 million increase in noninterest-bearing deposits was due mainly to increases in commercial noninterest-bearing deposits of $130.68 million or 3.93% and personal noninterest-bearing deposits of $20.34 million or 2.90%.

Interest-bearing deposits consists of interest-bearing checking (NOW), regular savings, interest-bearing MMDA, and time deposit account balances. Interest-bearing MMDAs increased $2.20 billion while NOW accounts decreased $1.78 billion since year-end 2017 due mainly to sweep activity of $1.61 billion from NOW accounts to interest-bearing MMDAs to reduce United s reserve requirement at its Federal Reserve Bank. Otherwise, interest-bearing MMDAs increased $591.73 million or 15.75% as brokered MMDAs, personal MMDAs and public funds MMDAs were up $121.04 million, $224.04 million, and $41.19 million, respectively. Commercial MMDAs decreased $19.61 million. Excluding the sweep activity, NOW accounts decreased $177.38 million or 8.22% mainly due to a decrease of $170.49 million in personal NOW accounts and a $31.51 million decrease in commercial NOW accounts. Partially offsetting these decreases was an increase of $24.62 million in public funds NOW accounts.

Regular savings decreased $79.14 million or 7.65% from year-end 2017 mainly due to a $66.70 million decrease in personal savings accounts and a $12.34 million decrease in commercial savings accounts.

Time deposits under $100,000 decreased $82.82 million or 10.42% from year-end 2017. This decrease in time deposits under $100,000 is the result of decreases of $28.12 million and $33.81 million in fixed rate certificates of deposits (CDs) and Certificate of Deposit Account Registry Service (CDARS) balances, respectively. In addition, variable rate CDs decreased $20.80 million.

Since year-end 2017, time deposits over $100,000 decreased $210.36 million or 11.73% as CDARS balances decreased $397.21 million, which was partially offset by a $92.75 million increase in brokered deposits, a $30.99 million increase in fixed rate CDs over $100,000, and a $70.65 million increase in public funds CDs over $100,000.

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The table below summarizes the changes by deposit category since year-end 2017:

(Dollars in thousands)	December 31 2018	December 31 2017	$ Change	% Change
Demand deposits	$ 3,212,878	$ 4,294,687	$ (1,081,809)	(25.19%)
Interest-bearing checking	374,495	2,156,974	(1,782,479)	(82.64%)
Regular savings	954,961	1,034,100	(79,139)	(7.65%)
Money market accounts	7,157,028	3,756,259	3,400,769	90.54%
Time deposits under $100,000	712,313	795,137	(82,824)	(10.42%)
Time deposits over $100,000 (1)	1,583,074	1,793,434	(210,360)	(11.73%)
Total deposits	$ 13,994,749	$ 13,830,591	$ 164,158	1.19%

(1) Includes time deposits of $250,000 or more of $979,707 and $790,703 at December 31, 2018 and 2017, respectively.

At December 31, 2018, the scheduled maturities of time deposits are as follows:

Year (In thousands)	Amount
2019	$ 1,494,211
2020	442,121
2021	172,555
2022	140,199
2023 and thereafter	46,301
TOTAL	$ 2,295,387

Maturities of time certificates of deposit of $100,000 or more outstanding at December 31, 2018 are summarized as follows:

(In thousands)	Amount
3 months or less	$ 300,073
Over 3 through 6 months	429,803
Over 6 through 12 months	366,941
Over 12 months	486,257
TOTAL	$ 1,583,074

The average daily amount of deposits and rates paid on such deposits is summarized for the years ended December 31:

2018	2017	2016
Interest	Interest	Interest

	Amount	Expense	Rate	Amount	Expense	Rate	Amount	Expense	Rate
					(Dollars in thousands)				
Demand deposits	$ 4,297,474	$ 0	0.00%	$ 3,800,902	$ 0	0.00%	$ 2,921,628	$ 0	0.00%
NOW and money market deposits	6,062,294	57,723	0.95%	5,650,379	25,867	0.46%	4,364,102	14,151	0.32%
Savings deposits	1,043,348	2,161	0.21%	992,798	2,002	0.20%	733,233	994	0.14%
Time deposits	2,337,368	31,623	1.35%	2,505,711	21,857	0.87%	1,840,790	13,980	0.76%
TOTAL	$ 13,740,484	$ 91,507	0.67%	$ 12,949,790	$ 49,726	0.38%	$ 9,859,753	$ 29,125	0.30%

More information relating to deposits is presented in Note I, Notes to Consolidated Financial Statements.

Borrowings

Total borrowings at December 31, 2018 remained flat from year-end 2017, increasing $8.87 million or less than 1%. During the year of 2018, short-term borrowings decreased $126.26 million or 26.44% due to a $108.43 million decrease in short-term securities sold under agreements to repurchase and a $25.00 million decrease in short-term FHLB advances. Federal funds purchased increased $7.17 million. Long-term borrowings increased $135.13 million or 9.91%

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from year-end 2017 due to a $192.67 million increase in long-term FHLB advances. Partially offsetting this increase were the redemption of a trust preferred issuance (Century Trust) and the repayment of a wholesale security sold under an agreement to repurchase.

The table below summarizes the changes by borrowing category since year-end 2017:

	December 31 2018	December 31 2017	Amount Change	Percentage Change
(Dollars in thousands)				
Federal funds purchased	$ 23,400	$ 16,235	$ 7,165	44.13%
Short-term securities sold under agreements to repurchase	152,927	261,352	(108,425)	(41.49%)
Long-term securities sold under agreements to repurchase	0	50,000	(50,000)	(100.00%)
Short-term FHLB advances	175,000	200,000	(25,000)	(12.50%)
Long-term FHLB advances	1,264,198	1,071,531	192,667	17.98%
Issuances of trust preferred capital securities	234,905	242,446	(7,541)	(3.11%)
Total borrowings	$ 1,850,430	$ 1,841,564	$ 8,866	0.48%

For a further discussion of borrowings see Notes J and K, Notes to Consolidated Financial Statements.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at December 31, 2018 increased $6.71 million or 4.61% from year-end 2017. In particular, interest payable increased $4.90 million, accrued mortgage escrow liabilities increased $2.60 million, accounts payable associated with George Mason increased $4.39 million and incentives payables increased $1.25 million. Partially offsetting these increases was a $5.12 million decrease in the pension liability due to a discretionary contribution of $7.00 million to the Company s pension plan during the first quarter of 2018.

Shareholders Equity

Shareholders equity at December 31, 2018 was relatively flat from December 31, 2017, increasing $11.09 million or less than 1%.

Retained earnings increased $121.22 million or 13.59% from year-end 2017. Earnings net of dividends for the year of 2018 were $114.73 million. Amounts reclassed to retained earnings from AOCI for the adoption of ASU No. 2016-01 and ASU No. 2018-02 totaled $6.49 million for the year of 2018.

Since year-end 2017, accumulated other comprehensive income decreased $14.99 million or 35.68% due mainly to a decrease of $16.23 million in the fair value of United s available for sale investment portfolio, net of deferred income taxes partially offset by the reclass to retained earnings of $6.49 million and the reversal of $7.22 million in noncredit OTTI for securities sold in 2018. The after-tax accretion of pension costs was $3.67 million for the year of 2018 while the after-tax pension accounting adjustment at year-end 2018 resulted in a decline of $3.17 million.

During the second quarter of 2018, United began repurchasing its common stock on the open market under repurchase plans approved by United s Board of Directors. United repurchased 2,870,000 shares in 2018 at a cost of $100.94 million or an average price per share of $34.95.

EARNINGS SUMMARY

Overview

Net income for the year 2018 was $256.34 million or $2.45 per diluted share, an increase of $105.76 million or 70.24% from $150.58 million or $1.54 per diluted share for the year of 2017. The results for the year of 2017 included additional income tax expense of $37.73 million or $0.39 per diluted share related to the estimated impact of the enactment of the Tax Cuts and Jobs Act (the Tax Act). Income before income taxes for the year of 2018 was $327.17 million, an increase of $42.34 million or 14.86% from the year of 2017.

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As previously mentioned, United completed its acquisition of Cardinal on April 21, 2017. The financial results of Cardinal are included in United s results from the acquisition date. As a result of the acquisition, the year of 2018 was impacted for increased levels of average balances, income, and expense as compared to the year of 2017. In addition, the year of 2017 included merger-related expenses of $26.84 million due to the Cardinal acquisition.

United s return on average assets for the year of 2018 was 1.36% and return on average shareholders equity was 7.84% as compared to 0.85% and 5.09% for the year of 2017. 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 1.23% and 10.29%, respectively, for the first nine months of 2018.

Net interest income for the year of 2018 was $588.65 million, an increase of $39.65 million or 7.22% from the prior year. The increase in net interest income occurred because total interest income increased $93.91 million while total interest expense only increased $54.26 million from the year of 2017.

The provision for credit losses was $22.01 million for the year 2018 as compared to $28.41 million for the year of 2017. Noninterest income was $128.71 million for the year of 20