

UNITED BANKSHARES INC/WV  
Form 10-Q  
August 09, 2016  
Table of Contents

**FORM 10-Q**  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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

For the quarterly period ended June 30, 2016

OR

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

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

Commission File Number: 0-13322

**United Bankshares, Inc.**

(Exact name of registrant as specified in its charter)

<b>West Virginia</b> (State or other jurisdiction of incorporation or organization)	<b>55-0641179</b> (I.R.S. Employer Identification No.)
<b>300 United Center</b>  <b>500 Virginia Street, East</b>  <b>Charleston, West Virginia</b> (Address of principal executive offices)	<b>25301</b> Zip Code
<b>Registrant's telephone number, including area code: (304) 424-8716</b>	

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

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

Class - Common Stock, \$2.50 Par Value; **76,379,927** shares outstanding as of **July 31, 2016**.

**Table of Contents**

**UNITED BANKSHARES, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**TABLE OF CONTENTS**

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets (Unaudited) June 30, 2016 and December 31, 2015</u>	4
<u>Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2016 and 2015</u>	5
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2016 and 2015</u>	7
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the Six Months Ended June 30, 2016</u>	8
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2016 and 2015</u>	9
<u>Notes to Consolidated Financial Statements</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	53
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	77
<u>Item 4. Controls and Procedures</u>	79
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	80
<u>Item 1A. Risk Factors</u>	80
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	80
<u>Item 3. Defaults Upon Senior Securities</u>	81
<u>Item 4. Mine Safety Disclosures</u>	81
<u>Item 5. Other Information</u>	81
<u>Item 6. Exhibits</u>	81
<u>Signatures</u>	82
<u>Exhibits Index</u>	83

**Table of Contents**

**PART I - FINANCIAL INFORMATION**

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

The June 30, 2016 and December 31, 2015, consolidated balance sheets of United Bankshares, Inc. and Subsidiaries ( United or the Company ), consolidated statements of income and comprehensive income for the three and six months ended June 30, 2016 and 2015, the related consolidated statement of changes in shareholders' equity for the six months ended June 30, 2016, the related condensed consolidated statements of cash flows for the six months ended June 30, 2016 and 2015, and the notes to consolidated financial statements appear on the following pages.

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

	<b>June 30 2016 (Unaudited)</b>	<b>December 31 2015 (Note 1)</b>
<b>Assets</b>		
Cash and due from banks	\$ 179,023	\$ 136,690
Interest-bearing deposits with other banks	921,722	719,923
Federal funds sold	724	722
<b>Total cash and cash equivalents</b>	<b>1,101,469</b>	<b>857,335</b>
Securities available for sale at estimated fair value (amortized cost-\$1,309,638 at June 30, 2016 and \$1,072,340 at December 31, 2015)	1,323,709	1,066,334
Securities held to maturity (estimated fair value-\$30,759 at June 30, 2016 and \$36,319 at December 31, 2015)	34,029	39,099
Other investment securities	125,413	98,749
Loans held for sale	6,226	10,681
Loans	10,437,354	9,398,952
Less: Unearned income	(14,496)	(14,872)
Loans net of unearned income	10,422,858	9,384,080
Less: Allowance for loan losses	(72,448)	(75,726)
Net loans	10,350,410	9,308,354
Bank premises and equipment	77,215	73,089
Goodwill	866,176	710,252
Accrued interest receivable	37,668	35,801
Other assets	415,697	378,250
<b>TOTAL ASSETS</b>	<b>\$ 14,338,012</b>	<b>\$ 12,577,944</b>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 3,141,148	\$ 2,699,958
Interest-bearing	7,174,705	6,641,569
Total deposits	10,315,853	9,341,527
Borrowings:		
Federal funds purchased	8,300	22,230
Securities sold under agreements to repurchase	377,146	341,661
Federal Home Loan Bank borrowings	1,295,829	850,880
Other long-term borrowings	223,940	223,506
Reserve for lending-related commitments	1,394	936
Accrued expenses and other liabilities	102,410	84,569
<b>TOTAL LIABILITIES</b>	<b>12,324,872</b>	<b>10,865,309</b>
<b>Shareholders Equity</b>		
Preferred stock, \$1.00 par value; Authorized-50,000,000 shares, none issued		

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

Common stock, \$2.50 par value; Authorized-100,000,000 shares; issued-76,323,780 and 69,626,932 at June 30, 2016 and December 31, 2015, respectively, including 27,634 and 23,835 shares in treasury at June 30, 2016 and December 31, 2015, respectively	190,809	174,067
Surplus	1,004,285	752,997
Retained earnings	842,940	824,603
Accumulated other comprehensive loss	(23,943)	(38,212)
Treasury stock, at cost	(951)	(820)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>2,013,140</b>	<b>1,712,635</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 14,338,012</b>	<b>\$ 12,577,944</b>

*See notes to consolidated unaudited financial statements.*

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

(Dollars in thousands, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<b>Interest income</b>				
Interest and fees on loans	\$ 103,329	\$ 96,704	\$ 202,663	\$ 191,853
Interest on federal funds sold and other short-term investments	642	350	1,264	681
Interest and dividends on securities:				
Taxable	8,257	7,582	15,964	15,771
Tax-exempt	859	896	1,692	1,776
<b>Total interest income</b>	<b>113,087</b>	<b>105,532</b>	<b>221,583</b>	<b>210,081</b>
<b>Interest expense</b>				
Interest on deposits	6,670	6,796	13,555	13,681
Interest on short-term borrowings	365	209	579	440
Interest on long-term borrowings	3,327	2,625	6,440	5,309
<b>Total interest expense</b>	<b>10,362</b>	<b>9,630</b>	<b>20,574</b>	<b>19,430</b>
<b>Net interest income</b>	<b>102,725</b>	<b>95,902</b>	<b>201,009</b>	<b>190,651</b>
Provision for loan losses	7,667	5,716	11,702	11,070
<b>Net interest income after provision for loan losses</b>	<b>95,058</b>	<b>90,186</b>	<b>189,307</b>	<b>179,581</b>
<b>Other income</b>				
Fees from trust and brokerage services	4,792	4,931	9,661	9,823
Fees from deposit services	8,390	10,434	16,363	20,207
Bankcard fees and merchant discounts	1,365	1,231	2,203	2,045
Other service charges, commissions, and fees	796	639	1,225	1,117
Income from bank-owned life insurance	1,192	1,258	2,372	2,531
Income from mortgage banking	789	663	1,517	1,208
Other income	430	339	801	743
Total other-than-temporary impairment losses	339	0	339	(100)
Portion of loss recognized in other comprehensive income	(372)	0	(372)	66
<b>Net other-than-temporary impairment losses</b>	<b>(33)</b>	<b>0</b>	<b>(33)</b>	<b>(34)</b>
Net gains on sales/calls of investment securities	246	3	250	49
<b>Net investment securities gains</b>	<b>213</b>	<b>3</b>	<b>217</b>	<b>15</b>
<b>Total other income</b>	<b>17,967</b>	<b>19,498</b>	<b>34,359</b>	<b>37,689</b>
<b>Other expense</b>				
Employee compensation	22,631	20,724	44,910	40,992
Employee benefits	7,294	6,588	13,897	13,391
Net occupancy expense	7,773	6,542	14,026	13,071
Other real estate owned (OREO) expense	2,663	1,121	3,312	2,234
Equipment expense	2,058	2,020	4,065	4,144
Data processing expense	3,596	3,867	7,147	7,610

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

Bankcard processing expense	435	353	803	702
FDIC insurance expense	2,135	2,061	4,255	4,155
Other expense	16,270	14,454	30,496	29,086
Total other expense	64,855	57,730	122,911	115,385
Income before income taxes	48,170	51,954	100,755	101,885
Income taxes	16,378	17,145	34,257	32,449
Net income	\$ 31,792	\$ 34,809	\$ 66,498	\$ 69,436



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

	Three Months Ended June 30			Six Months Ended June 30	
	2016	2015	2016	2015	
<b>Earnings per common share:</b>					
Basic	\$ 0.44	\$ 0.50	\$ 0.94	\$ 1.00	
Diluted	\$ 0.44	\$ 0.50	\$ 0.94	\$ 1.00	
<b>Dividends per common share</b>					
	\$ 0.33	\$ 0.32	\$ 0.66	\$ 0.64	
<b>Average outstanding shares:</b>					
Basic	71,483,703	69,305,612	70,490,596	69,256,831	
Diluted	71,809,021	69,587,417	70,766,964	69,531,839	

*See notes to consolidated unaudited financial statements*

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

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 31,792	\$ 34,809	\$ 66,498	\$ 69,436
Change in net unrealized gain (loss) on available-for-sale (AFS) securities, net of tax	4,316	(6,100)	12,809	(766)
Accretion of the net unrealized loss on the transfer of AFS securities to held-to-maturity (HTM) securities, net of tax	1	2	2	3
Change in pension plan assets, net of tax	729	768	1,458	1,536
Comprehensive income, net of tax	\$ 36,838	\$ 29,479	\$ 80,767	\$ 70,209

*See notes to consolidated unaudited financial statements*

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

(Dollars in thousands, except per share data)

	Six Months Ended June 30, 2016						Total Shareholders Equity
	Common Stock Shares	Common Stock Par Value	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	
Balance at January 1, 2016	69,626,932	\$ 174,067	\$ 752,997	\$ 824,603	(\$ 38,212)	(\$ 820)	\$ 1,712,635
Comprehensive income:							
Net income	0	0	0	66,498	0	0	66,498
Other comprehensive income, net of tax:	0	0	0	0	14,269	0	14,269
Total comprehensive income, net of tax							80,767
Stock based compensation expense	0	0	1,330	0	0	0	1,330
Acquisition of Bank of Georgetown (6,527,746)	6,527,746	16,319	248,186	0	0	0	264,505
Purchase of treasury stock (9 shares)	0	0	0	0	0	0	0
Distribution of treasury stock from deferred compensation plan (3 shares)	0	0	0	0	0	0	0
Cash dividends (\$0.66 per share)	0	0	0	(48,161)	0	0	(48,161)
Grant of restricted stock (64,092 shares)	64,092	161	(161)	0	0	0	0
Forfeiture of restricted stock (3,793 shares)	0	0	131	0	0	(131)	0
Common stock options exercised (105,010 shares)	105,010	262	1,802	0	0	0	2,064
Balance at June 30, 2016	76,323,780	\$ 190,809	\$ 1,004,285	\$ 842,940	(\$ 23,943)	(\$ 951)	\$ 2,013,140

*See notes to consolidated unaudited financial statements.*

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

(Dollars in thousands)

	Six Months Ended June 30	
	2016	2015
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 74,928	\$ 72,371
<b>INVESTING ACTIVITIES</b>		
Proceeds from maturities and calls of securities held to maturity	5,002	184
Proceeds from sales of securities available for sale	103,399	3,436
Proceeds from maturities and calls of securities available for sale	90,833	84,031
Purchases of securities available for sale	(216,315)	(36,057)
Purchases of bank premises and equipment	(2,463)	(2,279)
Proceeds from sales of bank premises and equipment	0	994
Purchases of other investment securities	(40,245)	(10,561)
Proceeds from sales and redemptions of other investment securities	18,299	14,449
Acquisition of Bank of Georgetown, net of cash paid	29,330	0
Net change in loans	(79,923)	15,687
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	(92,083)	69,884
<b>FINANCING ACTIVITIES</b>		
Cash dividends paid	(45,969)	(44,374)
Excess tax benefits from stock-based compensation arrangements	1,304	635
Acquisition of treasury stock	0	0
Proceeds from exercise of stock options	2,089	4,558
Repayment of long-term Federal Home Loan Bank borrowings	(725,051)	(790,395)
Proceeds from issuance of long-term Federal Home Loan Bank borrowings	795,000	665,000
Distribution of treasury stock for deferred compensation plan	0	0
Changes in:		
Deposits	2,641	238,182
Federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings	231,275	(51,824)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	261,289	21,782
Increase in cash and cash equivalents	244,134	164,037
Cash and cash equivalents at beginning of year	857,335	753,064
Cash and cash equivalents at end of period	\$ 1,101,469	\$ 917,101

*See notes to consolidated unaudited financial statements.*

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

The accompanying unaudited consolidated interim financial statements of United Bankshares, Inc. and Subsidiaries ( United or the Company ) have been prepared in accordance with accounting principles for interim financial information generally accepted in the United States (GAAP) and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, the financial statements do not contain all of the information and footnotes required by accounting principles generally accepted in the United States. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements presented as of June 30, 2016 and 2015 and for the three-month and six-month periods then ended have not been audited. The consolidated balance sheet as of December 31, 2015 has been extracted from the audited financial statements included in United's 2015 Annual Report to Shareholders. The accounting and reporting policies followed in the presentation of these financial statements are consistent with those applied in the preparation of the 2015 Annual Report of United on Form 10-K. To conform to the 2016 presentation, certain reclassifications have been made to prior period amounts, which had no impact on net income, comprehensive income, or stockholders' equity. In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim periods have been made. Such adjustments are of a normal and recurring nature.

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

**1. SUMMARY OF NEW ACCOUNTING STANDARDS**

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. ASU 2016-13 changes the impairment model for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's incurred loss approach with an expected loss model for instruments measured at amortized cost and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount under the current other-than-temporary impairment (OTTI) model. ASU 2016-13 also simplifies the accounting model for purchased credit-impaired debt securities and loans. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. ASU 2016-13 is effective for United on January 1, 2020, with early adoption permitted, and management is currently evaluating the possible impact this standard may have on the Company's financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 will change certain aspects of accounting for share-based payments to employees. The new guidance will, amongst other things, require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. ASU 2016-09 is effective for United on January 1, 2017, and management is currently evaluating the possible impact this standard may have on the Company's financial condition or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 includes a lessee accounting model that recognizes two types of leases, finance leases and operating leases, while lessor accounting will remain largely unchanged from the current GAAP. ASU 2016-02 requires, amongst other things, that a lessee recognize on the

## **Table of Contents**

balance sheet a right-of-use asset and a lease liability for leases with terms of more than twelve months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. ASU 2016-02 is effective for United on January 1, 2019 and management is currently evaluating the possible impact this standard may have on the Company's financial condition or results of operations.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 makes changes to the classification and measurement of investments in equity securities, the presentation of certain fair value changes for financial liabilities measured at fair value under the fair value option and disclosure of fair value of instruments. In addition, ASU 2016-01 clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. ASU 2016-01 is effective for United on January 1, 2018 and is not expected to have a significant impact on the Company's financial condition or results of operations.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments associated with a business combination, as part of its simplification initiative. ASU 2015-16 requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. In addition, the acquirer must record, in the financial statements for the same period, the effect on earnings of changes in depreciation, amortization, or other income effect, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Entities must also present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in the current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amount had been recognized as of the acquisition date. ASU 2015-16 was effective for United on January 1, 2016 and did not have a significant impact on the Company's financial condition or results of operations.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), a consensus of the FASB Emerging Issues Task Force. ASU 2015-07 modifies certain provisions of FASB Accounting Standards Codification Topic 820, Fair Value Measurement (ASC 820). ASU 2015-07 eliminates the requirement to categorize investments in the fair value hierarchy if an investment's fair value is measured based on net asset value (NAV) per share (or its equivalent) using the practical expedient. The reporting entities will no longer be required to provide the related fair value disclosures for these securities but instead, will be required to disclose information to help users understand the nature of the investments as well as risks, including whether it is probable that the amount realized on the sale of the investments would differ from net asset value. ASU 2015-07 was effective for United on January 1, 2016 and did not have a significant impact on the Company's financial condition or results of operations.

In April 2015, the FASB issued ASU 2015-04, Compensation Retirement Benefits: Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets. ASU 2015-04 gives an employer whose fiscal year-end does not coincide with a calendar month-end the ability, as a practical expedient, to measure defined benefit retirement obligations and related plan assets as of the month-end that is closest to its fiscal year-end. ASU 2015-04 also provides guidance on accounting for contributions to the plan and significant events that require a remeasurement that occur during the period between a month-end measurement and the employer's fiscal year-end. ASU 2015-04 was effective for United on January 1, 2016 and did not have a significant impact on the Company's financial condition or results of operations.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. Under ASU 2015-03, debt issuance costs are required to be presented as a direct deduction of debt balances on the statement of financial condition, similar to the presentation of debt discounts. ASU 2015-03 is limited to simplifying the presentation of debt issuance costs and does not change the recognition and measurement guidance for debt issuance costs. ASU 2015-03 was effective for United on January 1, 2016 and did not have a significant impact on the Company's financial condition or results of operations.

---

**Table of Contents**

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. ASU 2015-02 improves targeted areas of the consolidation guidance and reduces the number of consolidation models. The new consolidation standard eliminates the deferral of FAS 167 and makes changes to both the variable interest model and the voting model in ASC 810. ASU 2015-02 affects all entities, could change consolidation conclusions and may trigger additional disclosures. ASU 2015-02 was effective for United on January 1, 2016 and did not have a significant impact on the Company's financial condition or results of operations.

In January 2015, the FASB issued ASU 2015-01, Income Statement, Extraordinary and Unusual Items (Subtopic 225-20). ASU 2015-01 eliminates the separate presentation of extraordinary items but does not change the requirement to disclose material items that are unusual or infrequent in nature. Eliminating the concept of extraordinary items will allow entities to no longer have to assess whether a particular event or transaction is both unusual in nature and infrequent in occurrence. ASU 2015-01 was effective for United on January 1, 2016 and did not have a significant impact on the Company's financial condition or results of operations.

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Accounting Standards Codification. The amendments require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The new revenue recognition standard sets forth a five step principle-based approach for determining revenue recognition. In April 2015, the FASB voted to defer the effective date of ASU 2014-09 by one-year for both public and private companies, and gave both public and private companies the option to early adopt using the original effective dates. ASU 2014-09 now will be effective for United on January 1, 2018 with early adoption permitted on January 1, 2017. Management is currently evaluating this guidance to determine the impact on the Company's financial condition or results of operations.

**2. MERGERS AND ACQUISITIONS**

After the close of business on June 3, 2016 (Acquisition Date), United acquired 100% of the outstanding common stock of Bank of Georgetown, a privately held community bank headquartered in Washington, D.C. With this transaction, United continues to expand its existing footprint in the D.C. Metro Region. The results of operations of Bank of Georgetown are included in the consolidated results of operations from the Acquisition Date.

At consummation, Bank of Georgetown had assets of \$1,278,841 loans of \$999,773 and deposits of \$971,369. The transaction was accounted for under the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the Acquisition Date.

---

**Table of Contents**

The aggregate purchase price was approximately \$264,505, including common stock valued at \$253,799, stock options assumed valued at \$10,696, and cash paid for fractional shares of \$10. The number of shares issued in the transaction was 6,527,746, which were valued based on the closing market price of \$38.88 for United's common shares on June 3, 2016. The preliminary purchase price has been allocated to the identifiable tangible and intangible assets resulting in preliminary additions to goodwill and core deposit intangibles of \$155,924 and \$11,406, respectively. The core deposit intangibles are expected to be amortized over ten years.

Because the consideration paid was greater than the net fair value of the acquired assets and liabilities, the Company recorded goodwill as part of the acquisition. None of the goodwill from the Bank of Georgetown acquisition is expected to be deductible for tax purposes. Because the merger occurred on June 3, 2016, the initial accounting for the business combination is incomplete at this time. United is using an independent third party to help determine the fair values of the assets and liabilities acquired from the Bank of Georgetown. However, United did record some preliminary fair value adjustments on certain acquired assets and liabilities which are subject to refinement for up to one year after the closing date of the acquisition. United recorded a downward fair value adjustment of \$33,567 on the loans acquired and a premium on interest-bearing deposits acquired of \$316. The premium amount on deposits will be accreted on an accelerated basis over the estimated remaining life of the deposits at the time of acquisition. United assumed approximately \$300 of liabilities to provide severance benefits to terminated employees of Bank of Georgetown, which has no remaining balance as of June 30, 2016. The estimated fair values of the acquired assets and assumed liabilities, including identifiable intangible assets are preliminary as of June 30, 2016 and are subject to refinement as additional information relative to closing date fair values becomes available. Any subsequent adjustments to the fair values of acquired assets and liabilities assumed, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill within the first 12 months following the date of acquisition.

In many cases, determining the estimated fair value of the acquired assets and assumed liabilities required United to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of those determinations related to the fair valuation of acquired loans. The fair value of the acquired loans is based on the present value of the expected cash flows. 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. For such loans, the excess of cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the impact of estimated credit losses and other factors, such as prepayments. In accordance with GAAP, there was no carry-over of Bank of Georgetown's previously established allowance for loan losses. As a result, standard industry coverage ratios with regard to the allowance for credit losses may be less comparable to financial institutions without acquired loans.

The acquired loans will be divided into loans with evidence of credit quality deterioration, which are accounted for under ASC topic 310-30 (acquired impaired) and loans that do not meet this criteria, which are accounted for under ASC topic 310-20 (acquired performing). Acquired impaired loans have experienced a deterioration of credit quality from origination to acquisition for which it is probable that United will be unable to collect all contractually required payments receivable, including both principal and interest. Subsequent decreases in the expected cash flows require United to evaluate the need for additions to the Company's allowance for credit losses. Subsequent improvements in expected cash flows generally result in the recognition of additional interest income over the then remaining lives of the loans. United is in the process of determining the fair value of the acquired impaired loans and the acquired performing loans, with the assistance of an independent third party, in order to provide all the required acquired loans' disclosures going forward.



**Table of Contents**

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

Purchase price:	
Value of common shares issued (6,527,746 shares)	\$ 253,799
Fair value of stock options assumed	10,696
Cash for fractional shares	10
<b>Total purchase price</b>	<b>264,505</b>
Identifiable assets:	
Cash and cash equivalents	29,340
Investment securities	219,781
Loans	966,206
Premises and equipment	5,581
Core deposit intangibles	11,406
Other assets	27,828
<b>Total identifiable assets</b>	<b>\$ 1,260,142</b>
Identifiable liabilities:	
Deposits	\$ 971,685
Short-term borrowings	101,020
Long-term borrowings	65,000
Other liabilities	13,856
<b>Total identifiable liabilities</b>	<b>1,151,561</b>
Preliminary fair value of net assets acquired including identifiable intangible assets	108,581
<b>Preliminary resulting goodwill</b>	<b>\$ 155,924</b>

The operating results of United for the six months ended June 30, 2016 include operating results of acquired assets and assumed liabilities subsequent to the Acquisition Date. The operations of United's metropolitan Washington D.C. geographic area, which primarily includes the acquired operations of Bank of Georgetown, provided \$15,780 in total revenues, which represents net interest income plus other income, and \$6,746 in net income from the period from the Acquisition Date to June 30, 2016. These amounts are included in United's consolidated financial statements as of and for the six months ended June 30, 2016. Bank of Georgetown's results of operations prior to the Acquisition Date are not included in United's consolidated financial statements.

The following table presents certain unaudited pro forma information for the results of operations for the six months ended June 30, 2016 and 2015, as if the Bank of Georgetown merger had occurred on January 1, 2016 and 2015, respectively. These results combine the historical results of Bank of Georgetown into United's consolidated statement of income and, while certain adjustments were made for the estimated impact of certain fair valuation adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on the indicated date nor are they intended to represent or be indicative of future results of operations. In particular, no adjustments have been made to eliminate the amount of Bank of Georgetown's provision for credit losses for 2016 and 2015 that may not have been necessary had the acquired loans been recorded at fair value as of the beginning of 2016 and 2015. Additionally, United expects to achieve operating cost savings and other business synergies as a result of the acquisition which are not reflected in the pro forma amounts.

Proforma  
Six Months Ended  
June 30

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

	2016	2015
Total Revenues <sup>(1)</sup>	\$ 254,509	\$ 248,109
Net Income	65,845	72,888

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

**Table of Contents****3. INVESTMENT SECURITIES**

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

	Amortized Cost	Gross Unrealized Gains	June 30, 2016		Estimated Fair Value	Cumulative OTTI in AOCI <sup>(1)</sup>
			Gross Unrealized Losses			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 150,733	\$ 2,843	\$ 0		\$ 153,576	\$ 0
State and political subdivisions	165,101	5,765	73		170,793	0
Residential mortgage-backed securities						
Agency	600,988	14,817	64		615,741	0
Non-agency	7,641	176	9		7,808	86
Commercial mortgage-backed securities						
Agency	299,847	9,209	0		309,056	0
Asset-backed securities	1,831	0	1		1,830	0
Trust preferred collateralized debt obligations	49,275	651	17,917		32,009	25,952
Single issue trust preferred securities	13,337	294	2,373		11,258	0
Other corporate securities	14,995	92	0		15,087	0
Marketable equity securities	5,890	665	4		6,551	0
<b>Total</b>	<b>\$ 1,309,638</b>	<b>\$ 34,512</b>	<b>\$ 20,441</b>		<b>\$ 1,323,709</b>	<b>\$ 26,038</b>

	Amortized Cost	Gross Unrealized Gains	December 31, 2015		Estimated Fair Value	Cumulative OTTI in AOCI <sup>(1)</sup>
			Gross Unrealized Losses			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 71,993	\$ 1,793	\$ 0		\$ 73,786	\$ 0
State and political subdivisions	130,685	3,144	51		133,778	0
Residential mortgage-backed securities						
Agency	473,109	5,580	707		477,982	0
Non-agency	9,119	457	5		9,571	458
Commercial mortgage-backed securities						
Agency	305,990	1,843	1,898		305,935	0
Asset-backed securities	3,404	0	5		3,399	0
Trust preferred collateralized debt obligations	49,386	635	15,335		34,686	25,952
Single issue trust preferred securities	13,811	249	2,367		11,693	0
Other corporate securities	9,999	50	0		10,049	0
Marketable equity securities	4,844	637	26		5,455	0
<b>Total</b>	<b>\$ 1,072,340</b>	<b>\$ 14,388</b>	<b>\$ 20,394</b>		<b>\$ 1,066,334</b>	<b>\$ 26,410</b>

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

**Table of Contents**

The following is a summary of securities available-for-sale which were in an unrealized loss position at June 30, 2016 and December 31, 2015.

	Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>June 30, 2016</b>				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 0	\$ 0	\$ 0	\$ 0
State and political subdivisions	16,406	73	0	0
Residential mortgage-backed securities				
Agency	31,918	64	0	0
Non-agency	0	0	268	9
Commercial mortgage-backed securities				
Agency	0	0	0	0
Asset-backed securities	0	0	1,830	1
Trust preferred collateralized debt obligations	1,126	187	25,983	17,730
Single issue trust preferred securities	4,150	493	3,810	1,880
Marketable equity securities	373	4	0	0
<b>Total</b>	<b>\$ 53,973</b>	<b>\$ 821</b>	<b>\$ 31,891</b>	<b>\$ 19,620</b>

	Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2015</b>				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 0	\$ 0	\$ 0	\$ 0
State and political subdivisions	15,550	51	0	0
Residential mortgage-backed securities				
Agency	90,004	707	0	0
Non-agency	348	5	0	0
Commercial mortgage-backed securities				
Agency	170,340	1,650	9,255	248
Asset-backed securities	3,399	5	0	0
Trust preferred collateralized debt obligations	3,304	135	28,633	15,200
Single issue trust preferred securities	4,225	404	3,720	1,963
Marketable equity securities	986	26	0	0
<b>Total</b>	<b>\$ 288,156</b>	<b>\$ 2,983</b>	<b>\$ 41,608</b>	<b>\$ 17,411</b>

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

**Table of Contents**

identification method. The realized losses relate to sales of securities within a rabbi trust for the payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries.

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Proceeds from sales and calls	\$ 159,232	\$ 51,381	\$ 194,231	\$ 87,468
Gross realized gains	250	4	256	54
Gross realized losses	4	1	6	5

At June 30, 2016, gross unrealized losses on available for sale securities were \$20,441 on 47 securities of a total portfolio of 567 available for sale securities. Securities in an unrealized loss position at June 30, 2016 consisted primarily of pooled trust preferred collateralized debt obligations (Trup Cdos) and single issue trust preferred securities. The Trup Cdos and the single issue trust preferred securities relate mainly to securities of financial institutions. In determining whether or not a security is other-than-temporarily impaired (OTTI), management considered the severity and the duration of the loss in conjunction with United's positive intent and the more likely than not ability to hold these securities to recovery of their cost basis or maturity.

*Agency mortgage-backed securities*

United's agency mortgage-backed securities portfolio relates to securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae. The total amortized cost of available for sale agency mortgage securities was \$900,835 at June 30, 2016. Of the \$900,835, \$299,847 was related to agency commercial mortgage securities and \$600,988 was related to agency residential mortgage securities. Each of the agency mortgage securities provides a guarantee of full and timely payments of principal and interest by the issuing agency. Based upon management's analysis and judgment, it was determined that none of the agency mortgage-backed securities were other-than-temporarily impaired at June 30, 2016.

*Non-agency residential mortgage-backed securities*

United's non-agency residential mortgage-backed securities portfolio relates to securities of various private label issuers. The Company has no exposure to real estate investment trusts (REITS) in its investment portfolio. The total amortized cost of available for sale non-agency residential mortgage-backed securities was \$7,641 at June 30, 2016. Of the \$7,641, \$1,516 was rated above investment grade and \$6,125 was rated below investment grade. Approximately 27% of the portfolio includes collateral that was originated during the year of 2005 or before. The remaining 73% includes collateral that was originated in the years of 2006 and 2007. The entire portfolio of the non-agency residential mortgage-backed securities is either the senior or super-senior tranches of their respective structure. In determining whether or not the non-agency mortgage-backed securities are other-than-temporarily impaired, management performs an in-depth analysis on each non-agency residential mortgage-backed security on a quarterly basis. The analysis includes a review of the following factors: weighted average loan to value, weighted average maturity, average FICO scores, historical collateral performance, geographic concentration, credit subordination, cross-collateralization, coverage ratios, origination year, full documentation percentage, event risk (repricing), and collateral type. Management completes a quarterly stress test to determine the level of loss protection remaining in each individual security and compares the protection remaining to the future expected performance of the underlying collateral. Additionally, management utilizes a third-party cash flow model to perform a cash flow test for each bond below investment grade. The model produces a bond specific set of cash flows based upon assumptions input by management. The input assumptions that are incorporated include the projected constant default rate (CDR) of the underlying mortgages, the loss severity upon default, and the prepayment rate on the underlying mortgage collateral. CDR and loss severities are forecasted by management after full evaluation of the underlying collateral including recent performance statistics. Therefore, based upon management's analysis and judgment, two non-agency residential mortgage-backed securities were other-than-temporarily impaired at June 30, 2016. The credit-related other-than-temporary impairment recognized in earnings for the second quarter of 2016 on these non-agency residential mortgage-backed securities, which are not expected to be sold, was \$33. Non-credit related other-than-temporary impairment, net of deferred taxes, of \$242 was recognized during the second quarter of 2016.

## **Table of Contents**

### *Single issue trust preferred securities*

The majority of United's single-issue trust preferred portfolio consists of obligations from large cap banks (i.e. banks with market capitalization in excess of \$10 billion). Management reviews each issuer's current and projected earnings trends, asset quality, capitalization levels, and other key factors. Upon completing the review for the second quarter of 2016, it was determined that none of the single issue securities were other-than-temporarily impaired. All single-issue trust preferred securities are currently receiving interest payments. The available for sale single issue trust preferred securities' ratings ranged from a low of Ba1 to a high of BBB-. The amortized cost of available for sale single issue trust preferred securities as of June 30, 2016 consisted of \$3,004 in investment grade bonds, \$4,643 in split-rated bonds and \$5,690 in unrated bonds. All of the unrated bonds were in an unrealized loss position for twelve months or longer as of June 30, 2016.

### *Trust preferred collateralized debt obligations (Trup Cdos)*

In order to determine how and when the Company recognizes OTTI, the Company first assesses its intentions regarding any sale of securities as well as the likelihood that it would be required to sell prior to recovery of the amortized cost. As of June 30, 2016, the Company has determined that it does not intend to sell any pooled trust preferred security and that it is not more likely than not that the Company will be required to sell such securities before recovery of their amortized cost.

To determine a net realizable value and assess whether other-than-temporary impairment existed, management performed detailed cash flow analysis to determine whether, in management's judgment, it was more likely that United would not recover the entire amortized cost basis of the security. The Company discounts the security-specific cash flow projection at the security-specific interest rate and compares the present value to the amortized cost. Management's cash flow analysis was performed for each security and considered the current deferrals and defaults within the underlying collateral, the likelihood that current deferrals would cure or ultimately default, potential future deferrals and defaults, potential prepayments, cash reserves, excess interest spread, credit analysis of the underlying collateral and the priority of payments in the cash flow structure. The underlying collateral analysis for each issuer took into consideration multiple factors including capital adequacy, earnings trends and asset quality. After completing its analysis of estimated cash flows, management determined that none of the Trup Cdos experienced an adverse change in cash flows during the second quarter of 2016, as the expected discounted cash flows from these particular securities were greater than or equal to the discounted cash flows originally expected at purchase or from the previous date of other-than-temporary impairment (cash flows are discounted at the contractual coupon rate for purposes of assessing OTTI).

There was no credit-related other-than-temporary impairment recognized in earnings for the second quarter of 2016 related to these securities. The total credit-related other-than-temporary impairment recognized in earnings during 2015 related to these securities was \$34. The balance of noncredit-related other-than-temporary impairment recognized on United's Trup Cdo portfolio was \$25,952 at June 30, 2016 and December 31, 2015.

The amortized cost of available for sale Trup Cdos in an unrealized loss position for twelve months or longer as of June 30, 2016 consisted of \$4,484 in investment grade bonds and \$39,229 in below investment grade bonds.

**Table of Contents**

The following is a summary of the available for sale Trup Cdos as of June 30, 2016:

Class		Amortized Cost	Fair Value	Unrealized Loss	Investment Grade	Amortized Cost Below Investment Grade	
						Split Rated	
Senior	Bank	\$ 6,625	\$ 5,847	\$ 778	\$ 4,484	\$ 0	\$ 2,141
Mezzanine	Bank (now in senior position)	11,352	8,180	3,172	0	0	11,352
Mezzanine	Bank	26,091	14,736	11,355	0	0	26,091
Mezzanine	Bank & Insurance (combination)	5,207	3,246	1,961	0	0	5,207
<b>Totals</b>		<b>\$ 49,275</b>	<b>\$ 32,009</b>	<b>\$ 17,266</b>	<b>\$ 4,484</b>	<b>\$ 0</b>	<b>\$ 44,791</b>

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

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

The secondary market for Trup Cdos ultimately became illiquid and although the market has improved, trading activity remains limited on these securities. In making this determination, the Company holds discussions with institutional traders to identify trends in the number and type of transactions related to the Trup Cdos.

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

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

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

The limited, yet relevant, observable inputs indicate that market yield requirements for Trup Cdos, on a credit-adjusted basis, remained very high relative to discount rates at purchase and compared to other similarly rated debt securities. Management also considered the ratings of the Company's bonds in its portfolio and the extent of downgrades in United's impairment analysis. However, management considered it imperative to independently perform its own credit analysis based on cash flows as described. The ratings of the investment grade Trup Cdos in the table above range from a low of AA to a high of Aaa. The below investment grade Trup Cdos range from a low of C to a high of Ba1.

On the Trup Cdos that have not been deemed to be other-than-temporarily impaired, the collateralization ratios range from a low of 104.0% to a high of 308.4%, with a median of 156.9%, and a weighted average of 212.7%. The collateralization ratio is defined as the current performing

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

collateral in a security, divided by the current balance of the specific tranche the Company owns, plus any debt which is senior or pari passu with the Company's security's priority level. Performing collateral excludes the balance of any issuer that has either defaulted or has deferred its interest payment. It is not uncommon for the collateralization of a security that is not other-than-temporarily impaired to be less than 100% due to the excess spread built into the securitization structure.



**Table of Contents**

Except for the debt securities that have already been deemed to be other-than-temporarily impaired, management does not believe any other individual security with an unrealized loss as of June 30, 2016 is other-than-temporarily impaired. For these securities, United believes the decline in value resulted from changes in market interest rates, credit spreads and liquidity, not a change in the expected contractual cash flows. Based on a review of each of the securities in the investment portfolio, management concluded that it expected to recover the amortized cost basis of the investment in such securities.

*Equity securities*

The amortized cost of United's equity securities was \$5,890 at June 30, 2016. For equity securities, management has evaluated the near-term prospects of the investment in relation to the severity and duration of any impairment and based on that evaluation, management determined that no equity securities were other-than-temporarily impaired at June 30, 2016.

*Other investment securities (cost method)*

During the second quarter of 2016, United also evaluated all of its cost method investments to determine if certain events or changes in circumstances during the second quarter of 2016 had a significant adverse effect on the fair value of any of its cost method securities. United determined that there were no events or changes in circumstances during the first quarter which would have an adverse effect on the fair value of any of its cost method securities. Therefore, no impairment was recorded.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Balance of cumulative credit losses at beginning of period	\$ 23,773	\$ 23,773	\$ 23,773	\$ 23,739
Additional credit losses on securities for which OTTI was previously recognized	33	0	33	34
Reductions during the period for securities for which the amount previously recognized in other comprehensive income was recognized in earnings	(1,644)	0	(1,644)	0
Balance of cumulative credit losses at end of period	\$ 22,162	\$ 23,773	\$ 22,162	\$ 23,773

The amortized cost and estimated fair value of securities available for sale at June 30, 2016 and December 31, 2015 by contractual maturity are shown as follows. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations without penalties.

	June 30, 2016		December 31, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 98,087	\$ 98,129	\$ 10,448	\$ 10,515
Due after one year through five years	296,081	302,838	273,469	274,158
Due after five years through ten years	212,521	222,195	213,274	216,636
Due after ten years	697,059	693,996	570,305	559,570
Marketable equity securities	5,890	6,551	4,844	5,455
Total	\$ 1,309,638	\$ 1,323,709	\$ 1,072,340	\$ 1,066,334



**Table of Contents**

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

	June 30, 2016			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 5,347	\$ 792	\$ 0	\$ 6,139
State and political subdivisions	9,322	18	205	9,135
Residential mortgage-backed securities				
Agency	33	7	0	40
Single issue trust preferred securities	19,307	0	3,882	15,425
Other corporate securities	20	0	0	20
<b>Total</b>	<b>\$ 34,029</b>	<b>\$ 817</b>	<b>\$ 4,087</b>	<b>\$ 30,759</b>

	December 31, 2015			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 10,425	\$ 860	\$ 0	\$ 11,285
State and political subdivisions	9,321	21	253	9,089
Residential mortgage-backed securities				
Agency	35	6	0	41
Single issue trust preferred securities	19,298	0	3,414	15,884
Other corporate securities	20	0	0	20
<b>Total</b>	<b>\$ 39,099</b>	<b>\$ 887</b>	<b>\$ 3,667</b>	<b>\$ 36,319</b>

Even though the market value of the held-to-maturity investment portfolio is less than its cost, the unrealized loss has no impact on the net worth or regulatory capital requirements of United. As of June 30, 2016, the Company's two largest held-to-maturity single-issue trust preferred exposures were to Wells Fargo (\$9,919) and SunTrust Bank (\$7,413). The two held-to-maturity single-issue trust preferred exposures with at least one rating below investment grade included SunTrust Bank (\$7,413) and Royal Bank of Scotland (\$975). Other corporate securities consist mainly of bonds of corporations.

There were no gross realized gains or losses on calls and sales of held to maturity securities included in earnings for the second quarter and first six months of 2016 and 2015.

**Table of Contents**

The amortized cost and estimated fair value of debt securities held to maturity at June 30, 2016 and December 31, 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers may have the right to call or prepay obligations without penalties.

	June 30, 2016		December 31, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 1,000	\$ 1,000	\$ 5,029	\$ 5,121
Due after one year through five years	8,624	9,432	9,672	10,458
Due after five years through ten years	4,045	3,843	4,045	3,794
Due after ten years	20,360	16,484	20,353	16,946
<b>Total</b>	<b>\$ 34,029</b>	<b>\$ 30,759</b>	<b>\$ 39,099</b>	<b>\$ 36,319</b>

The carrying value of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law, approximated \$1,243,648 and \$986,982 at June 30, 2016 and December 31, 2015, respectively.

**4. LOANS**

Major classes of loans are as follows:

	June 30, 2016	December 31, 2015
<b>Commercial, financial and agricultural:</b>		
Owner-occupied commercial real estate	\$ 877,393	\$ 927,746
Nonowner-occupied commercial real estate	3,675,865	2,896,367
Other commercial loans	1,684,008	1,602,222
<b>Total commercial, financial &amp; agricultural</b>	<b>6,237,266</b>	<b>5,426,335</b>
Residential real estate	2,403,466	2,268,685
Construction & land development	1,285,171	1,273,054
<b>Consumer:</b>		
Bankcard	12,074	11,653
Other consumer	499,377	419,225
<b>Total gross loans</b>	<b>\$ 10,437,354</b>	<b>\$ 9,398,952</b>

The table above does not include loans held for sale of \$6,226 and \$10,681 at June 30, 2016 and December 31, 2015, respectively. Loans held for sale consist of single-family residential real estate loans originated for sale in the secondary market.

The outstanding balances in the table above include previously acquired impaired loans with a recorded investment of \$111,137 or 1.06% of total gross loans at June 30, 2016 and \$148,197 or 1.58% of total gross loans at December 31, 2015. The contractual principal in these previously acquired impaired loans was \$160,108 and \$208,765 at June 30, 2016 and December 31, 2015, respectively. The impaired loan balances above do not include any impaired loans acquired from Bank of Georgetown, which are yet to be determined, or future accretable net interest (i.e. the difference between the undiscounted expected cash flows and the recorded investment in the loan) on the previously acquired impaired loans.

Activity for the accretable yield for the first six months of 2016 follows:

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

Accretable yield at the beginning of the period	\$ 12,156
Accretion (including cash recoveries)	(4,636)
Net reclassifications to accretable from non-accretable	2,530
Disposals (including maturities, foreclosures, and charge-offs)	(1,712)
Accretable yield at the end of the period	\$ 8,338

## **Table of Contents**

United's subsidiary banks have made loans to the directors and officers of United and its subsidiaries, and to their affiliates. The aggregate dollar amount of these loans was \$288,913 and 241,000 at June 30, 2016 and December 31, 2015, respectively.

### **5. CREDIT QUALITY**

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

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

A loan is categorized as a troubled debt restructuring (TDR) if a concession is granted and there is deterioration in the financial condition of the borrower. TDRs can take the form of a reduction of the stated interest rate, splitting a loan into separate loans with market terms on one loan and concessionary terms on the other loan, receipts of assets from a debtor in partial or full satisfaction of a loan, the extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk, the reduction of the face amount or maturity amount of the debt as stated in the instrument or other agreement, the reduction of accrued interest or any other concessionary type of renegotiated debt. As of June 30, 2016, United had TDRs of \$24,944 as compared to \$23,890 as of December 31, 2015. Of the \$24,944 aggregate balance of TDRs at June 30, 2016, \$10,682 was on nonaccrual status and included in the Loans on Nonaccrual Status on the following page. Of the \$23,890 aggregate balance of TDRs at December 31, 2015, \$11,949 was on nonaccrual status and included in the Loans on Nonaccrual Status on the following page. As of June 30, 2016, there were no commitments to lend additional funds to debtors owing receivables whose terms have been modified in TDRs. At June 30, 2016, United had restructured loans in the amount of \$2,721 that were modified by a reduction in the interest rate, \$8,755 that were modified by a combination of a reduction in the interest rate and the principal and \$13,468 that was modified by a change in terms.

A loan acquired and accounted for under ASC topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality is reported as an accruing loan and a performing asset.

**Table of Contents**

The following table sets forth United's troubled debt restructurings that have been restructured during the three months ended June 30, 2016 and 2015, segregated by class of loans:

	Troubled Debt Restructurings For the Three Months Ended					
	June 30, 2016			June 30, 2015		
	Pre- Modification Outstanding Number of Contracts	Post- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Pre- Modification Outstanding Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial real estate:						
Owner-occupied	1	\$ 1,190	\$ 1,188	0	\$ 0	\$ 0
Nonowner-occupied	0	0	0	1	669	669
Other commercial	1	700	700	0	0	0
Residential real estate	0	0	0	0	0	0
Construction & land development	0	0	0	0	0	0
Consumer:						
Bankcard	0	0	0	0	0	0
Other consumer	0	0	0	0	0	0
Total	2	\$ 1,890	\$ 1,888	1	\$ 669	\$ 669

The following table sets forth United's troubled debt restructurings that have been restructured during the six months ended June 30, 2016 and 2015, segregated by class of loans:

	Troubled Debt Restructurings For the Six Months Ended					
	June 30, 2016			June 30, 2015		
	Pre- Modification Outstanding Number of Contracts	Post- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Pre- Modification Outstanding Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Commercial real estate:						
Owner-occupied	1	\$ 1,190	\$ 1,188	0	\$ 0	\$ 0
Nonowner-occupied	0	0	0	1	669	669
Other commercial	4	2,141	2,134	1	240	240
Residential real estate	1	1,400	1,400	0	0	0
Construction & land development	0	0	0	0	0	0
Consumer:						
Bankcard	0	0	0	0	0	0
Other consumer	0	0	0	0	0	0
Total	6	\$ 4,731	\$ 4,722	2	\$ 909	\$ 909

During the second quarter and first six months of 2016, \$1,888 and \$3,322, respectively, of restructured loans were modified by a change in loan terms. In addition, during the first six months of 2016, \$1,400 of restructured loans were modified by a combination of a reduction in the interest rate and an extension of the maturity date. During the second quarter and first six months of 2015, \$669 and \$909, respectively, of restructured loans were modified by a combination of a reduction in the interest rate and an extension of the maturity date. In some instances, the post-modification balance on the restructured loans is larger than the pre-modification balance due to the advancement of monies for items such

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

as delinquent taxes on real estate property. The loans were evaluated individually for allocation within United's allowance for loan losses. The modifications had an immaterial impact on the financial condition and results of operations for United.



**Table of Contents**

No loans restructured during the twelve-month periods ended June 30, 2016 and 2015 subsequently defaulted, resulting in a principal charge-off during the first six months of 2016 and 2015, respectively.

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

**Age Analysis of Past Due Loans****As of June 30, 2016**

	<b>30-89 Days Past Due</b>	<b>90 Days or more Past Due</b>	<b>Total Past Due</b>	<b>Current &amp; Other (1)</b>	<b>Total Financing Receivables</b>	<b>Recorded Investment &gt;90 Days &amp; Accruing</b>
<b>Commercial real estate:</b>						
Owner-occupied	\$ 8,422	\$ 8,828	\$ 17,250	\$ 860,143	\$ 877,393	\$ 0
Nonowner-occupied	10,699	17,688	28,387	3,647,478	3,675,865	0
Other commercial	11,090	36,202	47,292	1,636,716	1,684,008	699
Residential real estate	32,796	23,018	55,814	2,347,652	2,403,466	3,463
Construction & land development	9,191	11,433	20,624	1,264,547	1,285,171	37
<b>Consumer:</b>						
Bankcard	331	103	434	11,640	12,074	103
Other consumer	8,660	1,513	10,173	489,204	499,377	1,292
<b>Total</b>	<b>\$ 81,189</b>	<b>\$ 98,785</b>	<b>\$ 179,974</b>	<b>\$ 10,257,380</b>	<b>\$ 10,437,354</b>	<b>\$ 5,594</b>

- (1) Other includes loans with a recorded investment of \$111,137 acquired and accounted for under ASC topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality.

**Age Analysis of Past Due Loans****As of December 31, 2015**

	<b>30-89 Days Past Due</b>	<b>90 Days or more Past Due</b>	<b>Total Past Due</b>	<b>Current &amp; Other (1)</b>	<b>Total Financing Receivables</b>	<b>Recorded Investment &gt;90 Days &amp; Accruing</b>
<b>Commercial real estate:</b>						
Owner-occupied	\$ 8,639	\$ 9,831	\$ 18,470	\$ 909,276	\$ 927,746	\$ 400
Nonowner-occupied	24,209	26,126	50,335	2,846,032	2,896,367	552
Other commercial	14,888	33,297	48,185	1,554,037	1,602,222	3,643
Residential real estate	44,312	28,332	72,644	2,196,041	2,268,685	4,294
Construction & land development	2,412	15,416	17,828	1,255,226	1,273,054	1,347
<b>Consumer:</b>						
Bankcard	223	168	391	11,262	11,653	168
Other consumer	9,082	1,596	10,678	408,547	419,225	1,224

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

Total	\$ 103,765	\$ 114,766	\$ 218,531	\$ 9,180,421	\$ 9,398,952	\$ 11,628
-------	------------	------------	------------	--------------	--------------	-----------

- (1) Other includes loans with a recorded investment of \$148,197 acquired and accounted for under ASC topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality .

**Table of Contents**

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

**Loans on Nonaccrual Status**

	June 30, 2016	December 31, 2015
Commercial real estate:		
Owner-occupied	\$ 8,828	\$ 9,431
Nonowner-occupied	17,688	25,574
Other commercial	35,503	29,654
Residential real estate	19,555	24,038
Construction & land development	11,396	14,069
Consumer:		
Bankcard	0	0
Other consumer	221	372
Total	\$ 93,191	\$ 103,138

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

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

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

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

**Table of Contents**

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

**Credit Quality Indicators****Corporate Credit Exposure****As of June 30, 2016**

	Commercial Real Estate			Construction & Land Development
	Owner- occupied	Nonowner- occupied	Other Commercial	
Grade:				
Pass	\$ 760,312	\$ 3,522,786	\$ 1,538,941	\$ 1,127,373
Special mention	38,739	31,690	26,435	55,444
Substandard	78,342	121,389	115,922	102,234
Doubtful	0	0	2,710	120
Total	\$ 877,393	\$ 3,675,865	\$ 1,684,008	\$ 1,285,171

**As of December 31, 2015**

	Commercial Real Estate			Construction & Land Development
	Owner- occupied	Nonowner- occupied	Other Commercial	
Grade:				
Pass	\$ 835,082	\$ 2,710,504	\$ 1,436,670	\$ 1,095,238
Special mention	20,391	32,249	26,148	59,100
Substandard	72,273	153,614	136,585	118,716
Doubtful	0	0	2,819	0
Total	\$ 927,746	\$ 2,896,367	\$ 1,602,222	\$ 1,273,054

**Credit Quality Indicators****Consumer Credit Exposure****As of June 30, 2016**

	Residential	Bankcard	Other
	Real Estate		Consumer
Grade:			
Pass	\$ 2,336,352	\$ 11,640	\$ 488,943
Special mention	20,667	331	8,769
Substandard	46,008	103	1,665
Doubtful	439	0	0
Total	\$ 2,403,466	\$ 12,074	\$ 499,377

**As of December 31, 2015****Bankcard**

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

	<b>Residential Real Estate</b>		<b>Other Consumer</b>
Grade:			
Pass	\$ 2,195,420	\$ 11,262	\$ 408,271
Special mention	13,494	223	9,188
Substandard	57,981	168	1,766
Doubtful	1,790	0	0
 Total	 \$ 2,268,685	 \$ 11,653	 \$ 419,225

Loans are designated as impaired when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful. Typically, United does not consider loans for impairment unless a sustained period of delinquency (i.e. 90 days or more) is noted or there are subsequent

**Table of Contents**

events that impact repayment probability (i.e. negative financial trends, bankruptcy filings, eminent foreclosure proceedings, etc.). Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. Consistent with United's existing method of income recognition for loans, interest on impaired loans, except those classified as nonaccrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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

	Impaired Loans					
	June 30, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
<b>With no related allowance recorded:</b>						
Commercial real estate:						
Owner-occupied	\$ 26,557	\$ 27,090	\$ 0	\$ 36,615	\$ 36,828	\$ 0
Nonowner-occupied	59,080	59,575	0	69,053	69,517	0
Other commercial	22,654	24,889	0	30,433	32,158	0
Residential real estate	27,833	29,420	0	21,431	22,329	0
Construction & land development	21,891	24,105	0	28,245	29,953	0
Consumer:						
Bankcard	0	0	0	0	0	0
Other consumer	39	39	0	32	32	0
<b>With an allowance recorded:</b>						
Commercial real estate:						
Owner-occupied	\$ 4,915	\$ 4,915	\$ 1,712	\$ 4,555	\$ 4,555	\$ 1,253
Nonowner-occupied	10,800	10,800	1,716	7,890	7,890	1,362
Other commercial	35,486	36,786	16,617	29,486	33,127	18,269
Residential real estate	4,034	4,769	898	13,305	14,625	2,118
Construction & land development	11,273	14,331	4,939	14,132	20,135	4,789
Consumer:						
Bankcard	0	0	0	0	0	0
Other consumer	0	0	0	0	0	0
<b>Total:</b>						
Commercial real estate:						
Owner-occupied	\$ 31,472	\$ 32,005	\$ 1,712	\$ 41,170	\$ 41,383	\$ 1,253
Nonowner-occupied	69,880	70,375	1,716	76,943	77,407	1,362
Other commercial	58,140	61,675	16,617	59,919	65,285	18,269
Residential real estate	31,867	34,189	898	34,736	36,954	2,118
Construction & land development	33,164	38,436	4,939	42,377	50,088	4,789
Consumer:						
Bankcard	0	0	0	0	0	0
Other consumer	39	39	0	32	32	0

	Impaired Loans			
	For the Three Months Ended			
	June 30, 2016		June 30, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>With no related allowance recorded:</b>				
Commercial real estate:				
Owner-occupied	\$ 27,267	\$ 125	\$ 43,898	\$ 117
Nonowner-occupied	62,049	186	66,936	354
Other commercial	25,816	124	35,659	140
Residential real estate	28,074	97	30,867	97

Construction & land development	22,838	40	36,722	80
Consumer:				

**Table of Contents**

	Impaired Loans			
	For the Three Months Ended			
	June 30, 2016		June 30, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Bankcard	0	0	0	0
Other consumer	33	0	35	0
<b>With an allowance recorded:</b>				
Commercial real estate:				
Owner-occupied	\$ 4,552	\$ 30	\$ 4,789	\$ 20
Nonowner-occupied	8,615	195	6,847	7
Other commercial	37,584	98	19,764	154
Residential real estate	8,174	19	7,119	18
Construction & land development	11,919	48	10,740	58
Consumer:				
Bankcard	0	0	0	0
Other consumer	0	0	0	0
<b>Total:</b>				
Commercial real estate:				
Owner-occupied	\$ 31,819	\$ 155	\$ 48,687	\$ 137
Nonowner-occupied	70,664	381	73,783	361
Other commercial	63,400	222	55,423	294
Residential real estate	36,248	116	37,986	115
Construction & land development	34,757	88	47,462	138
Consumer:				
Bankcard	0	0	0	0
Other consumer	33	0	35	0

	Impaired Loans			
	For the Six Months Ended			
	June 30, 2016		June 30, 2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>With no related allowance recorded:</b>				
Commercial real estate:				
Owner-occupied	\$ 33,221	\$ 184	\$ 40,294	\$ 179
Nonowner-occupied	66,395	393	61,290	517
Other commercial	27,861	224	32,580	240
Residential real estate	26,872	237	31,912	146
Construction & land development	25,916	67	45,541	159
Consumer:				
Bankcard	0	0	0	0
Other consumer	34	0	40	0
<b>With an allowance recorded:</b>				
Commercial real estate:				
Owner-occupied	\$ 4,564	\$ 57	\$ 4,936	\$ 58
Nonowner-occupied	8,507	238	7,112	46
Other commercial	34,134	228	19,083	218
Residential real estate	9,339	25	6,692	29
Construction & land development	12,994	90	10,833	92
Consumer:				
Bankcard	0	0	0	0
Other consumer	0	0	0	0
<b>Total:</b>				
Commercial real estate:				
Owner-occupied	\$ 37,785	\$ 241	\$ 45,230	\$ 237



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

Nonowner-occupied	74,902	631	68,402	563
Other commercial	61,995	452	51,663	458
Residential real estate	36,211	262	38,604	175
Construction & land development	38,910	157	56,374	251
Consumer:				
Bankcard	0	0	0	0
Other consumer	34	0	40	0

---

**Table of Contents**

At June 30, 2016 and December 31, 2015, other real estate owned (OREO) included in other assets in the Consolidated Balance Sheets was \$34,894 and \$32,228, respectively. OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried at the lower of the investment in the assets or the fair value of the assets less estimated selling costs. Any adjustment to the fair value at the date of transfer is charged against the allowance for loan losses. Any subsequent valuation adjustments as well as any costs relating to operating, holding or disposing of the property are recorded in other expense in the period incurred. At June 30, 2016 and December 31, 2015, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process was \$180 and \$234, respectively.

**6. ALLOWANCE FOR CREDIT LOSSES**

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

For purposes of determining the general allowance, the loan portfolio is segregated by loan product type to recognize differing risk profiles among loan categories. It is further segregated by credit grade for risk-rated loan pools and delinquency for homogeneous loan pools. The outstanding principal balance within each pool is multiplied by historical loss data and certain qualitative factors to derive the general loss allocation per pool. Specific loss allocations are calculated for loans in excess of \$500 thousand in accordance with ASC topic 310. Risk characteristics of owner-occupied commercial real estate loans and other commercial loans are similar in that they are normally dependent upon the borrower's internal cash flow from operations to service debt. Nonowner-occupied commercial real estate loans differ in that cash flow to service debt is normally dependent on external income from third parties for use of the real estate such as rents, leases and room rates. Residential real estate loans are dependent upon individual borrowers who are affected by changes in general economic conditions, demand for housing and resulting residential real estate valuation. Construction and land development loans are impacted mainly by demand whether for new residential housing or for retail, industrial, office and other types of commercial construction within a given area. Consumer loan pool risk characteristics are influenced by general, regional and local economic conditions. During the first six months of 2016, there were no material changes to the accounting policy or methodology related to the allowance for loan losses.

Loans deemed to be uncollectible are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses. For commercial loans, when a loan or a portion of a

## **Table of Contents**

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

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

For loans acquired through the completion of a transfer, including loans acquired in a business combination, that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that United will be unable to collect all contractually required payment receivable are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the accretable yield, is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the nonaccretable difference, are not recognized as a yield adjustment or as a loss accrual or a valuation allowance. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as impairment. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received). For the three and six months ended June 30, 2016, the re-estimation of the expected cash flows related to loans acquired that have evidence of deterioration of credit quality resulted in provision for loan losses expense of \$1,728 and \$1,290, respectively, as compared to provision for loan losses expense of \$668 and \$4,032, respectively, for the three and six months ended June 30, 2015.

United maintains an allowance for loan losses and a reserve for lending-related commitments such as unfunded loan commitments and letters of credit. The reserve for lending-related commitments of \$1,394 and \$936 at June 30, 2016 and December 31, 2015, respectively, is separately classified on the balance sheet and is included in other liabilities. The combined allowance for loan losses and reserve for lending-related commitments are referred to as the allowance for credit losses.

**Table of Contents**

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

**Allowance for Loan Losses****For the Three Months Ended June 30, 2016**

	Commercial Real Estate					Construction & Land Development	Consumer	Allowance for Estimated Imprecision	Total
	Owner- occupied	Nonowner- occupied	Other Commercial	Residential Real Estate					
<b>Allowance for Loan Losses:</b>									
Beginning balance	\$ 5,348	\$ 6,201	\$ 32,640	\$ 13,547	\$ 15,266	\$ 2,273	\$ 215	\$ 75,490	
Charge-offs	1,328	45	7,364	1,136	1,429	685	0	11,987	
Recoveries	588	122	29	236	195	108	0	1,278	
Provision	2,346	449	5,052	(542)	(642)	861	143	7,667	
Ending balance	\$ 6,954	\$ 6,727	\$ 30,357	\$ 12,105	\$ 13,390	\$ 2,557	\$ 358	\$ 72,448	

**Allowance for Loan Losses and Carrying Amount of Loans****For the Six Months Ended June 30, 2016**

	Commercial Real Estate					Construction & Land Development	Consumer	Allowance for Estimated Imprecision	Total
	Owner- occupied	Nonowner- occupied	Other Commercial	Residential Real Estate					
<b>Allowance for Loan Losses:</b>									
Beginning balance	\$ 3,637	\$ 5,309	\$ 31,328	\$ 15,148	\$ 18,205	\$ 1,995	\$ 104	\$ 75,726	
Charge-offs	2,673	408	11,118	1,845	1,429	1,460	0	18,933	
Recoveries	1,369	626	1,009	447	254	248	0	3,953	
Provision	4,621	1,200	9,138	(1,645)	(3,640)	1,774	254	11,702	
Ending balance	\$ 6,954	\$ 6,727	\$ 30,357	\$ 12,105	\$ 13,390	\$ 2,557	\$ 358	\$ 72,448	
Ending Balance: individually evaluated for impairment	\$ 1,712	\$ 1,716	\$ 16,617	\$ 898	\$ 4,939	\$ 0	\$ 0	\$ 25,882	
Ending Balance: collectively evaluated for impairment	\$ 5,242	\$ 5,011	\$ 13,740	\$ 11,207	\$ 8,451	\$ 2,557	\$ 358	\$ 46,566	
Ending Balance: loans acquired with deteriorated credit quality	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
<b>Financing receivables:</b>									
Ending balance	\$ 877,394	\$ 3,675,864	\$ 1,684,008	\$ 2,403,466	\$ 1,285,171	\$ 511,451	\$ 0	\$ 10,437,354	
Ending Balance: individually evaluated for impairment	\$ 15,034	\$ 19,648	\$ 44,388	\$ 14,845	\$ 13,822	\$ 0	\$ 0	\$ 107,737	

**Table of Contents****Allowance for Loan Losses and Carrying Amount of Loans****For the Year Ended December 31, 2015**

	Commercial Real Estate					Construction & Land Development	Consumer	Allowance for Estimated Imprecision	Total
	Owner- occupied	Nonowner- occupied	Other Commercial	Residential Real Estate					
Ending Balance: collectively evaluated for impairment	\$ 848,843	\$ 3,611,531	\$ 1,625,065	\$ 2,377,034	\$ 1,244,595	\$ 511,412	\$ 0	\$ 10,218,480	
Ending Balance: loans acquired with deteriorated credit quality	\$ 13,517	\$ 44,685	\$ 14,555	\$ 11,587	\$ 26,754	\$ 39	\$ 0	\$ 111,137	

**Allowance for Loan Losses and Carrying Amount of Loans****For the Year Ended December 31, 2015**

	Commercial Real Estate					Construction & Land Development	Consumer	Allowance for Estimated Imprecision	Total
	Owner- occupied	Nonowner- occupied	Other Commercial	Residential Real Estate					
<b>Allowance for Loan Losses:</b>									
Beginning balance	\$ 4,041	\$ 8,167	\$ 26,931	\$ 13,835	\$ 19,402	\$ 3,083	\$ 70	\$ 75,529	
Charge-offs	(4,755)	(1,120)	(10,042)	(6,411)	(862)	(2,309)	(0)	(25,499)	
Recoveries	829	74	714	495	511	499	0	3,122	
Provision	3,522	(1,812)	13,725	7,229	(846)	722	34	22,574	
Ending balance	\$ 3,637	\$ 5,309	\$ 31,328	\$ 15,148	\$ 18,205	\$ 1,995	\$ 104	\$ 75,726	
Ending Balance: individually evaluated for impairment	\$ 1,253	\$ 1,362	\$ 18,269	\$ 2,119	\$ 4,789	\$ 0	\$ 0	\$ 27,792	
Ending Balance: collectively evaluated for impairment	\$ 2,384	\$ 3,947	\$ 13,059	\$ 13,029	\$ 13,416	\$ 1,995	\$ 104	\$ 47,934	
Ending Balance: loans acquired with deteriorated credit quality	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
<b>Financing receivables:</b>									
Ending balance	\$ 927,746	\$ 2,896,367	\$ 1,602,222	\$ 2,268,685	\$ 1,273,054	\$ 430,878	\$ 0	\$ 9,398,952	
Ending Balance: individually evaluated for impairment	\$ 12,670	\$ 26,152	\$ 35,342	\$ 17,782	\$ 15,779	\$ 0	\$ 0	\$ 107,725	
Ending Balance: collectively evaluated for impairment	\$ 888,802	\$ 2,817,748	\$ 1,546,018	\$ 2,237,865	\$ 1,221,760	\$ 430,837	\$ 0	\$ 9,143,030	
Ending Balance: loans acquired with deteriorated credit quality	\$ 26,274	\$ 52,467	\$ 20,862	\$ 13,038	\$ 35,515	\$ 41	\$ 0	\$ 148,197	

**Table of Contents****7. INTANGIBLE ASSETS**

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

	Gross Carrying Amount	As of June 30, 2016 Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit intangible assets	\$ 71,983	(\$ 44,400)	\$ 27,583
Goodwill not subject to amortization			\$ 866,176

	Gross Carrying Amount	As of December 31, 2015 Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Core deposit intangible assets	\$ 60,577	(\$ 42,737)	\$ 17,840
Goodwill not subject to amortization			\$ 710,252

The following table provides a reconciliation of goodwill:

Goodwill at December 31, 2015	\$ 710,252
Preliminary addition to goodwill from Bank of Georgetown acquisition	155,924
Goodwill at June 30, 2016	\$ 866,176

United incurred amortization expense on intangible assets of \$919 and \$1,664 for the quarter and six months ended June 30, 2016, respectively, and \$855 and \$1,710 for the quarter and six months ended June 30, 2015, respectively.

The following table sets forth the anticipated amortization expense for intangible assets for the years subsequent to 2015:

Year	Amount
2016	\$ 4,193
2017	4,559
2018	4,000
2019	3,703
2020 and thereafter	12,791

**8. SHORT-TERM BORROWINGS**

Federal funds purchased and securities sold under agreements to repurchase are a significant source of funds for the Company. United has various unused lines of credit available from certain of its correspondent banks in the aggregate amount of \$264,000. These lines of credit, which bear interest at prevailing market rates, permit United to borrow funds in the overnight market, and are renewable subject to certain conditions. At June 30, 2016, federal funds purchased were \$8,300 while securities sold under agreements to repurchase (REPOs) were \$377,146. Included in the \$377,146 of total REPOs were wholesale REPOs of \$50,123, including purchase accounting amounts, assumed in the Virginia Commerce merger. These wholesale REPOs are scheduled to mature in May of 2018. The securities sold under agreements to repurchase were accounted for as collateralized financial transactions. They were recorded at the amounts at which the securities were acquired

or sold plus accrued interest.

**Table of Contents**

United has a \$20,000 line of credit with an unrelated financial institution to provide for general liquidity needs. The line is an unsecured, revolving line of credit. The line will be renewable on a 360-day basis and will carry an indexed, floating-rate of interest. The line requires compliance with various financial and nonfinancial covenants. At June 30, 2016, United had no outstanding balance under this line of credit.

**9. LONG-TERM BORROWINGS**

United's subsidiary banks are members of the Federal Home Loan Bank (FHLB). Membership in the FHLB makes available short-term and long-term borrowings from collateralized advances. All FHLB borrowings are collateralized by a mix of single-family residential mortgage loans, commercial loans and investment securities. At June 30, 2016, United had an unused borrowing amount of approximately \$1,947,887 available subject to delivery of collateral after certain trigger points. Advances may be called by the FHLB or redeemed by United based on predefined factors and penalties.

At June 30, 2016, \$1,295,829 of FHLB advances with a weighted-average interest rate of 0.59% are scheduled to mature within the next nine years. Overnight funds of \$400,000 with an interest rate of 0.48% are included in the \$1,295,829 above at June 30, 2016.

The scheduled maturities of these FHLB borrowings are as follows:

Year	Amount
2016	\$ 995,589
2017	230,240
2018	10,000
2019	35,000
2020 and thereafter	25,000
Total	\$ 1,295,829

At June 30, 2016, United had a total of thirteen statutory business trusts that were formed for the purpose of issuing or participating in pools of trust preferred capital securities (Capital Securities) with the proceeds invested in junior subordinated debt securities (Debentures) of United. The Debentures, which are subordinate and junior in right of payment to all present and future senior indebtedness and certain other financial obligations of United, are the sole assets of the trusts and United's payment under the Debentures is the sole source of revenue for the trusts. At June 30, 2016 and December 31, 2015, the outstanding balance of the Debentures was \$223,940 and \$223,506, respectively, and was included in the category of long-term debt on the Consolidated Balance Sheets entitled Other long-term borrowings. The Capital Securities are not included as a component of shareholders' equity in the Consolidated Balance Sheets. United fully and unconditionally guarantees each individual trust's obligations under the Capital Securities.

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

In July of 2013, United's primary federal regulator, the Federal Reserve, published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations which were effective for United on January 1, 2015. The Basel III Capital Rules permit bank holding companies such as United with less than \$15 billion in total consolidated assets as of December 31, 2009 to include in additional Tier 1 Capital trust preferred securities and cumulative perpetual preferred stock issued and included in Tier 1 Capital prior to May 19, 2010 on a permanent basis, without any phase-out. However, United's Trust Preferred Securities are subject to a limit of 25 percent of Tier 1 capital elements excluding any non-qualifying capital instruments and after all regulatory capital deductions and adjustments applied to Tier 1 capital. Trust Preferred Securities no longer included in United's Tier 1 capital may be included as a component of Tier 2 capital on a permanent basis without phase-out. As of June 30, 2016, all of United's Trust Preferred Securities qualify as Tier 1 Capital.



## **Table of Contents**

### **10. COMMITMENTS AND CONTINGENT LIABILITIES**

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily, and historically do not, represent future cash requirements. The amount of collateral obtained, if deemed necessary upon the extension of credit, is based on management's credit evaluation of the counterparty. United had approximately \$2,596,914 and \$2,587,957 of loan commitments outstanding as of June 30, 2016 and December 31, 2015, respectively, approximately half of which expire within one year.

Commercial and standby letters of credit are agreements used by United's customers as a means of improving their credit standing in their dealings with others. Under these agreements, United guarantees certain financial commitments of its customers. A commercial letter of credit is issued specifically to facilitate trade or commerce. Typically, under the terms of a commercial letter of credit, a commitment is drawn upon when the underlying transaction is consummated as intended between the customer and a third party. As of June 30, 2016 and December 31, 2015, United had \$11 and \$226, respectively, of outstanding commercial letters of credit. A standby letter of credit is generally contingent upon the failure of a customer to perform according to the terms of an underlying contract with a third party. United has issued standby letters of credit \$122,597 and \$135,146 as of June 30, 2016 and December 31, 2015, respectively. In accordance with the Contingencies Topic of the FASB Accounting Standards Codification, United has determined that substantially all of its letters of credit are renewed on an annual basis and the fees associated with these letters of credit are immaterial.

United and its subsidiaries are currently involved in various legal proceedings in the normal course of business. Management is vigorously pursuing all its legal and factual defenses and, after consultation with legal counsel, believes that all such litigation will be resolved with no material effect on United's financial position.

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

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

**Table of Contents**

United accounts for its derivative financial instruments in accordance with the Derivatives and Hedging topic of the FASB Accounting Standards Codification. The Derivatives and Hedging topic require all derivative instruments to be carried at fair value on the balance sheet. United has designated certain derivative instruments used to manage interest rate risk as hedge relationships with certain assets, liabilities or cash flows being hedged. Certain derivatives used for interest rate risk management are not designated in a hedge relationship.

Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. As of June 30, 2016, United has only fair value hedges.

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

At inception of a hedge relationship, United formally documents the hedged item, the particular risk management objective, the nature of the risk being hedged, the derivative being used, how effectiveness of the hedge will be assessed and how the ineffectiveness of the hedge will be measured. United also assesses hedge effectiveness at inception and on an ongoing basis using regression analysis. Hedge ineffectiveness is measured by using the change in fair value method. The change in fair value method compares the change in the fair value of the hedging derivative to the change in the fair value of the hedged exposure, attributable to changes in the benchmark rate. The portion of a hedge that is ineffective is recognized immediately in earnings.

The derivative portfolio also includes derivative financial instruments not included in hedge relationships. These derivatives consist of interest rate swaps used for interest rate management purposes and derivatives executed with commercial banking customers to facilitate their interest rate management strategies. For derivatives that are not designated in a hedge relationship, changes in the fair value of the derivatives are recognized in earnings in the same period as the change in fair value. Gains and losses on other derivative financial instruments are included in noninterest income and noninterest expense, respectively.

The following table sets forth certain information regarding the interest rate derivatives portfolio used for interest-rate risk management purposes and designated as accounting hedges under the Derivatives and Hedging topic at June 30, 2016.

**Derivative Classifications and Hedging Relationships****June 30, 2016**

	<b>Notional Amount</b>	<b>Average Pay Rate</b>
<b>Fair Value Hedges:</b>		
Pay Fixed Swaps (Hedging Commercial Loans)	\$ 96,500	3.64%
<b>Total Derivatives Used in Fair Value Hedges</b>	<b>\$ 96,500</b>	
<b>Total Derivatives Used for Interest Rate Risk Management and Designated as Hedges</b>	<b>\$ 96,500</b>	

**Table of Contents**

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

	Asset Derivatives			
	June 30, 2016		December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 0	Other assets	\$ 0
<b>Total derivatives designated as hedging instruments</b>		\$ 0		\$ 0
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 2,515	Other assets	\$ 2,942
<b>Total derivatives not designated as hedging instruments</b>		\$ 2,515		\$ 2,942
<b>Total asset derivatives</b>		\$ 2,515		\$ 2,942

	Liability Derivatives			
	June 30, 2016		December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>				
Interest rate contracts	Other liabilities	\$ 7,458	Other liabilities	\$ 1,179
<b>Total derivatives designated as hedging instruments</b>		\$ 7,458		\$ 1,179
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Other liabilities	\$ 2,515	Other liabilities	\$ 2,942
<b>Total derivatives not designated as hedging instruments</b>		\$ 2,515		\$ 2,942
<b>Total liability derivatives</b>		\$ 9,973		\$ 4,121

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

**Table of Contents**

The effect of United's derivative financial instruments on its unaudited Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015 are presented as follows:

	Income Statement Location	Three Months Ended	
		June 30, 2016	June 30, 2015
<b>Derivatives in fair value hedging relationships</b>			
Interest rate contracts	Interest income/ (expense)	\$ (249)	\$ 96
<b>Total derivatives in fair value hedging relationships</b>		<b>\$ (249)</b>	<b>\$ 96</b>
<b>Derivatives not designated as hedging instruments</b>			
Interest rate contracts <sup>(1)</sup>	Other income	\$ 0	\$ 0
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 0</b>	<b>\$ 0</b>
<b>Total derivatives</b>		<b>\$ (249)</b>	<b>\$ 96</b>

	Income Statement Location	Six Months Ended	
		June 30, 2016	June 30, 2015
<b>Derivatives in fair value hedging relationships</b>			
Interest rate contracts	Interest income/ (expense)	\$ 32	\$ (328)
<b>Total derivatives in fair value hedging relationships</b>		<b>\$ 32</b>	<b>\$ (328)</b>
<b>Derivatives not designated as hedging instruments</b>			
Interest rate contracts <sup>(1)</sup>	Other income	\$ 0	\$ 0
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 0</b>	<b>\$ 0</b>
<b>Total derivatives</b>		<b>\$ 32</b>	<b>\$ (328)</b>

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

**12. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

---

**Table of Contents**

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

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

**Securities available for sale:** Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Using a market approach valuation methodology, third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2). Management internally reviews the fair values provided by third party vendors on a monthly basis. Management's review consists of comparing fair values assigned by third party vendors to trades and offerings observed by management. The review requires some degree of judgment as to the number or percentage of securities to review on the part of management which could fluctuate based on results of past reviews and in comparison to current expectations. Exceptions that are deemed to be material are reviewed by management. Additionally, to assess the reliability of the information received from third party vendors, management obtains documentation from third party vendors related to the sources, methodologies, and inputs utilized in valuing securities classified as Level 2. Management analyzes this information to ensure the underlying assumptions appear reasonable. Management also obtains an independent service auditor's report from third party vendors to provide reasonable assurance that appropriate controls are in place over the valuation process. Upon completing its review of the pricing from third party vendors at June 30, 2016, management determined that the prices provided by its third party pricing source were reasonable and in line with management's expectations for the market values of these securities. Therefore, prices obtained from third party vendors that did not reflect forced liquidation or distressed sales were not adjusted by management at June 30, 2016. Management utilizes a number of factors to determine if a market is inactive, all of which may require a significant level of judgment. Factors that management considers include: a significant widening of the bid-ask spread, a considerable decline in the volume and level of trading activity in the instrument, a significant variance in prices among market participants, and a significant reduction in the level of observable inputs. Any securities available for sale not valued based upon quoted market prices or third party pricing models that consider observable market data are considered Level 3. Currently, United considers its valuation of available-for-sale Trup Cdos as Level 3. The Fair Value Measurements and Disclosures topic assumes that fair values of financial assets are determined in an orderly transaction and not a forced liquidation or distressed sale at the measurement date. Based on financial market conditions, United feels that the fair values obtained from its third party vendor reflect forced liquidation or distressed sales for these Trup Cdos due to decreased volume and trading activity. Additionally, management held discussions with institutional traders to identify trends in the number and type of transactions related to the Trup Cdos sector. Based upon management's review of the market conditions for Trup Cdos, it was determined that an income approach valuation technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs is more representative of fair value than the valuation technique used by United's third party vendor. The present value technique discounts expected future cash flows of a security to arrive at a present value. Management considers the following items when calculating the

**Table of Contents**

appropriate discount rate: the implied rate of return when the market was last active, changes in the implied rate of return as markets moved from very active to inactive, recent changes in credit ratings, and recent activity showing that the market has built in increased liquidity and credit premiums. Management's internal credit review of each security was also factored in to determine the appropriate discount rate. The credit review considered each security's collateral, subordination, excess spread, priority of claims, principal and interest. Discount margins used in the valuation at June 30, 2016 ranged from LIBOR plus 4.25% to LIBOR plus 12.50%. Management completed a sensitivity analysis on the fair value of its Trup Cdos. Given a comprehensive 200 basis point increase in the discount rates, the total fair value of these securities would decline by approximately 15%, or \$4,760.

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

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

For derivatives that are not designated in a hedge relationship, changes in the fair value of the derivatives are recognized in earnings in the same period as the change in the fair value. Unrealized gains and losses due to changes in the fair value of other derivative financial instruments not in hedge relationship are included in noninterest income and noninterest expense, respectively.

**Table of Contents**

The following tables present the balances of financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy.

Description	Fair Value at June 30, 2016 Using			
	Balance as of June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Available for sale debt securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies				
	\$ 153,576	\$ 0	\$ 153,576	\$ 0
State and political subdivisions				
	170,793	0	170,793	0
Residential mortgage-backed securities				
Agency				
	615,741	0	615,741	0
Non-agency				
	7,808	0	7,808	0
Asset-backed securities				
	1,830	0	1,830	0
Commercial mortgage-backed securities				
Agency				
	309,056	0	309,056	0
Trust preferred collateralized debt obligations				
	32,009	0	0	32,009
Single issue trust preferred securities				
	11,258	0	11,258	0
Other corporate securities				
	15,087	0	15,087	0
Total available for sale debt securities	1,317,158	0	1,285,149	32,009
Available for sale equity securities:				
Financial services industry				
	3,652	817	2,835	0
Equity mutual funds (1)				
	1,735	1,735	0	0
Other equity securities				
	1,164	1,164	0	0
Total available for sale equity securities	6,551	3,716	2,835	0
Total available for sale securities	1,323,709	3,716	1,287,984	32,009
Derivative financial assets:				
Interest rate contracts				
	2,515	0	2,515	0
<b>Liabilities</b>				
Derivative financial liabilities:				
Interest rate contracts				
	9,973	0	9,973	0

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

Description	Fair Value at December 31, 2015 Using			
	Balance as of December 31, 2015	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)



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

		<b>for</b>	<b>(Level 2)</b>	
		<b>Identical</b>		
		<b>Assets</b>		
		<b>(Level</b>		
		<b>1)</b>		
<b>Assets</b>				
Available for sale debt securities:				
U.S. Treasury securities and obligations of U.S.				
Government corporations and agencies	\$ 73,786	\$ 0	\$ 73,786	\$ 0
State and political subdivisions	133,778	0	133,778	0
Residential mortgage-backed securities				
Agency	477,982	0	477,982	0
Non-agency	9,571	0	9,571	0
Asset-backed securities	3,399	0	3,399	0
Commercial mortgage-backed securities				
Agency	305,935	0	305,935	0

**Table of Contents**

Description	Fair Value at December 31, 2015 Using			
	Balance as of December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trust preferred collateralized debt obligations	34,686	0	0	34,686
Single issue trust preferred securities	11,693	0	11,693	0
Other corporate securities	10,049	0	10,049	0
Total available for sale debt securities	1,060,879	0	1,026,193	34,686
Available for sale equity securities:				
Financial services industry	2,723	800	1,923	0
Equity mutual funds (1)	1,596	1,596	0	0
Other equity securities	1,136	1,136	0	0
Total available for sale equity securities	5,455	3,532	1,923	0
Total available for sale securities	1,066,334	3,532	1,028,116	34,686
Derivative financial assets:				
Interest rate contracts	2,942	0	2,942	0
Liabilities				
Derivative financial liabilities:				
Interest rate contracts	4,121	0	4,121	0

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

There were no transfers between Level 1 and Level 2 for financial assets and liabilities measured at fair value on a recurring basis during the six months ended June 30, 2016 and the year ended December 31, 2015. The following table presents additional information about financial assets and liabilities measured at fair value at June 30, 2016 and December 31, 2015 on a recurring basis and for which United has utilized Level 3 inputs to determine fair value:

	Available-for-sale Securities	
	June 30, 2016	December 31, 2015
Balance, beginning of period	\$ 34,686	\$ 39,558
Total gains or losses (realized/unrealized):		
Included in earnings (or changes in net assets)	0	(34)
Included in other comprehensive income	(2,677)	(4,838)
Purchases, issuances, and settlements	0	0
Transfers in and/or out of Level 3	0	0
Balance, end of period	\$ 32,009	\$ 34,686
	0	0

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

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

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

---

**Table of Contents**

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

**Loans held for sale:** Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, United records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the six months ended June 30, 2016. Gains and losses on sale of loans are recorded within income from mortgage banking on the Consolidated Statements of Income.

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

**OREO:** OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the balance sheet at the lower of the investment in the assets or the fair value of the assets less estimated selling costs. Fair value is determined by one of two market approach methods depending on whether the property has been vacated and an appraisal can be conducted. If the property has yet to be vacated and thus an appraisal cannot be performed, a Brokers Price Opinion (i.e. BPO), is obtained. A BPO represents a best estimate valuation performed by a realtor based on knowledge of current property values and a visual examination of the exterior condition of the property. Once the property is subsequently vacated, a formal appraisal is obtained and the recorded asset value appropriately adjusted. On the other hand, if the OREO property has been vacated and an appraisal can be conducted, the fair value of the property is determined based upon the appraisal using a market approach. An authorized independent appraiser conducts appraisals for United. Appraisals for property other than ongoing construction are based on consideration of comparable property sales (Level 2). In contrast, valuation of ongoing construction assets requires some degree of professional judgment. In conducting an appraisal for ongoing construction property, the appraiser develops two appraised amounts: an "as is" appraised value and a "completed" value. Based on professional judgment and their knowledge of the particular situation, management determines the appropriate fair value to be utilized for such property (Level 3). As a matter of policy, valuations are reviewed at least annually and appraisals are generally updated on a bi-annual basis with values lowered as necessary.

**Intangible Assets:** For United, intangible assets consist of goodwill and core deposit intangibles. Goodwill is tested for impairment at least annually or sooner if indicators of impairment exist. Goodwill impairment would be defined as the difference between the recorded value of goodwill (i.e. book value) and the implied fair value of goodwill. In determining the implied fair value of goodwill for purposes of evaluating goodwill impairment, United determines the fair value of the reporting unit using a market approach and compares the fair value to its carrying value. If the carrying

**Table of Contents**

value exceeds the fair value, a step two test is performed whereby the implied fair value is computed by deducting the fair value of all tangible and intangible net assets from the fair value of the reporting unit. Core deposit intangibles relate to the estimated value of the deposit base of acquired institutions. Management reviews core deposit intangible assets on an annual basis, or sooner if indicators of impairment exist, and evaluates changes in facts and circumstances that may indicate impairment in the carrying value. No fair value measurement of intangible assets was made during the first six months of 2016 and 2015.

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

Description	Carrying value at June 30, 2016					YTD Losses
	Balance as of June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets						
Impaired Loans	\$ 66,508	\$ 0	\$ 20,003	\$ 46,505		\$ 3,915
OREO	34,894	0	34,628	266		1,865

Description	Carrying value at December 31, 2015					YTD Losses
	Balance as of December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets						
Impaired Loans	\$ 69,368	\$ 0	\$ 29,186	\$ 40,182		\$ 8,485
OREO	32,228	0	32,228	0		1,141

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

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

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

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

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

is assumed to equal United's carrying value, which represents the present value of expected future principal and interest cash flows, as adjusted for any Allowance for Loan Losses recorded for these loans.

**Table of Contents**

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

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

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

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

	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>June 30, 2016</b>					
Cash and cash equivalents	\$ 1,101,469	\$ 1,101,469	\$ 0	\$ 1,101,469	\$ 0
Securities available for sale	1,323,709	1,323,709	3,716	1,287,984	32,009
Securities held to maturity	34,029	30,759	0	27,739	3,020
Other securities	125,413	119,143	0	0	119,143
Loans held for sale	6,226	6,226	0	6,226	0
Loans	10,350,410	10,410,066	0	0	10,410,066
Derivative financial assets	2,515	2,515	0	2,515	0
Deposits	10,315,853	10,300,805	0	10,300,805	0
Short-term borrowings	735,323	735,323	0	735,323	0
Long-term borrowings	1,169,892	1,141,151	0	1,141,151	0
Derivative financial liabilities	9,973	9,973	0	9,973	0
<b>December 31, 2015</b>					
Cash and cash equivalents	\$ 857,335	\$ 857,335	\$ 0	\$ 857,335	\$ 0
Securities available for sale	1,066,334	1,066,334	3,532	1,028,116	34,686
Securities held to maturity	39,099	36,320	0	33,300	3,020
Other securities	98,749	93,811	0	0	93,811
Loans held for sale	10,681	10,681	0	10,681	0
Loans	9,308,354	9,289,463	0	0	9,289,463
Derivative financial assets	2,942	2,942	0	2,942	0
Deposits	9,341,527	9,332,451	0	9,332,451	0
Short-term borrowings	423,028	423,028	0	423,028	0
Long-term borrowings	1,015,249	988,270	0	988,270	0
Derivative financial liabilities	4,121	4,121	0	4,121	0

---

**Table of Contents****13. STOCK BASED COMPENSATION**

On May 18, 2016, United's shareholders approved the 2016 Long-Term Incentive Plan (2016 LTI Plan). The 2016 LTI Plan became effective as of May 18, 2016. An award granted under the 2016 LTI Plan may consist of any non-qualified stock options or incentive stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, performance units or other-stock-based award. These awards all relate to the common stock of United. The maximum number of shares of United common stock which may be issued under the 2016 LTI Plan is 1,700,000. The 2016 LTI Plan will be administered by a board committee appointed by United's Board of Directors (the Board). Unless otherwise determined by the Board, the Compensation Committee of the Board (the Committee) shall administer the 2016 LTI Plan. Any and all shares may be issued in respect of any of the types of Awards, provided that (1) the aggregate number of shares that may be issued in respect of restricted stock awards, and restricted stock unit awards which are settled in shares is 500,000, and (2) the aggregate number of shares that may be issued pursuant to stock options is 1,200,000. The shares to be offered under the 2016 LTI Plan may be authorized and unissued shares or treasury shares. The maximum number of options and SARs, in the aggregate, which may be awarded to any individual key employee during any calendar year is 100,000. The maximum number of stock options and SARs, in the aggregate, which may be awarded to any non-employee director during any calendar year is 10,000. The maximum number of shares of restricted stock or shares subject to a restricted stock units award that may be granted during any calendar year is 50,000 shares to any individual key employee and 5,000 shares to any individual non-employee director. Subject to certain change in control provisions, the 2016 LTI Plan provides that awards of restricted stock and restricted stock units will vest as the Committee determines in the award agreement, provided that no awards will vest sooner than 1/3 per year over the first three anniversaries of the award. Awards granted to executive officers of United typically will have performance based vesting conditions. A Form S-8 was filed on July 29, 2016 with the Securities and Exchange Commission to register all the shares which were available for the 2016 LTI Plan.

The 2016 LTI Plan replaces the 2011 Long-Term Incentive Plan (2011 LTI Plan) which expired during the second quarter of 2016. A total of 967,285 stock options and 289,637 restricted shares of common stock were granted under the 2011 LTI Plan. Compensation expense of \$672 and \$1,330 related to the nonvested awards under the 2011 LTI Plan and the 2006 Stock Option Plan was incurred for the second quarter and first six months of 2016, respectively, as compared to the compensation expense of \$757 and \$1,388 related to the nonvested awards under the 2006 Stock Option Plan incurred for the second quarter and first six months of 2015, respectively. Compensation expense was included in employee compensation in the unaudited Consolidated Statements of Income.

*Stock Options*

United currently has options outstanding from various option plans other than the 2011 LTI Plan (the Prior Plans); however, no common shares of United stock are available for grants under the Prior Plans as these plans have expired. Awards outstanding under the Prior Plans will remain in effect in accordance with their respective terms. The maximum term for options granted under the plans is ten (10) years.



**Table of Contents**

A summary of activity under United's stock option plans as of June 30, 2016, and the changes during the first six months of 2016 are presented below:

	Shares	Six Months Ended June 30, 2016		
		Aggregate Intrinsic Value	Remaining Contractual Term (Yrs.)	Weighted Average Exercise Price
Outstanding at January 1, 2016	1,207,110			\$ 28.15
Assumed in Bank of Georgetown merger	561,570			35.04
Granted	189,780			19.66
Exercised	(105,010)			17.90
Forfeited or expired	(14,666)			31.37
Outstanding at June 30, 2016	1,838,784	\$ 20,822	6.1	\$ 26.19
Exercisable at June 30, 2016	1,396,367	\$ 19,126	5.2	\$ 23.81

The following table summarizes the status of United's nonvested stock option awards during the first six months of 2016:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at January 1, 2016	426,395	\$ 6.68
Granted	189,780	6.97
Vested	(162,183)	6.59
Forfeited or expired	(11,575)	6.83
Nonvested at June 30, 2016	442,417	\$ 6.83

During the six months ended June 30, 2016 and 2015, 105,010 and 147,419 shares, respectively, were issued in connection with stock option exercises. All shares issued in connection with stock option exercises for the six months ended June 30, 2016 and 2015 were issued from authorized and unissued stock. The total intrinsic value of options exercised under the Plans during the six months ended June 30, 2016 and 2015 was \$1,774 and \$1,100 respectively.

*Restricted Stock*

Currently, United only has restricted shares of common stock outstanding from the 2011 LTI Plan. Recipients of restricted shares do not pay any consideration to United for the shares, have the right to vote all shares subject to such grant and receive all dividends with respect to such shares, whether or not the shares have vested. Presently, nonvested participating securities have an immaterial impact on diluted earnings per share.

The following summarizes the changes to United's restricted common shares for the period ended June 30, 2016:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at January 1, 2016	129,772	\$ 31.69
Granted	64,092	35.04
Vested	(49,179)	30.51

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

Forfeited	(3,793)		32.44
Outstanding at June 30, 2016	140,892	\$	33.60

### 14. EMPLOYEE BENEFIT PLANS

United has a defined benefit retirement plan covering a majority of all employees. Pension benefits are based on years of service and the average of the employee's highest five consecutive plan years of basic compensation paid during the ten plan years preceding the date of determination. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

**Table of Contents**

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

Included in accumulated other comprehensive income at December 31, 2015 are unrecognized actuarial losses of \$55,998 (\$35,727 net of tax) that have not yet been recognized in net periodic pension cost. The amortization of this item expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2016 is \$4,618 (\$2,946 net of tax).

Net periodic pension cost for the three and six months ended June 30, 2016 and 2015 included the following components:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Service cost	\$ 608	\$ 748	\$ 1,215	\$ 1,488
Interest cost	1,456	1,446	2,912	2,876
Expected return on plan assets	(2,012)	(2,319)	(4,024)	(4,612)
Recognized net actuarial loss	1,149	1,222	2,297	2,430
Net periodic pension (benefit) cost	\$ 1,201	\$ 1,097	\$ 2,400	\$ 2,182

**Weighted-Average Assumptions:**

Discount rate	4.75%	4.35%	4.75%	4.35%
Expected return on assets	7.25%	7.50%	7.25%	7.50%
Rate of compensation increase (prior to age 45)	3.50%	3.50%	3.50%	3.50%
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%

**15. INCOME TAXES**

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

As of June 30, 2016, United has provided a liability for \$2,203 of unrecognized tax benefits related to various federal and state income tax matters. The entire amount of unrecognized tax benefits, if recognized, would impact United's effective tax rate. Over the next 12 months, the statute of limitations will close on certain income tax periods. However, at this time, United cannot reasonably estimate the amount of tax benefits it may recognize over the next 12 months.

United is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2012, 2013 and 2014 and State Taxing authorities for the years ended December 31, 2012 through 2014.

As of June 30, 2016 and 2015, the total amount of accrued interest related to uncertain tax positions was \$772 and \$728, respectively. United accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

**Table of Contents****16. COMPREHENSIVE INCOME**

The components of total comprehensive income for the three and six months ended June 30, 2016 and 2015 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<b>Net Income</b>	<b>\$ 31,792</b>	<b>\$ 34,809</b>	<b>\$ 66,498</b>	<b>\$ 69,436</b>
Available for sale ( AFS ) securities:				
AFS securities with OTTI charges during the period	(77)	0	(77)	(100)
Related income tax effect	28	0	28	36
Income tax rate change	0	316	0	316
Less : OTTI charges recognized in net income	33	0	33	34
Related income tax benefit	(12)	0	(12)	(12)
Reclassification of previous noncredit OTTI to credit OTTI	415	0	415	0
Related income tax benefit	(150)	0	(150)	0
Net unrealized (losses) gains on AFS securities with OTTI	237	316	237	274
AFS securities all other:				
Change in net unrealized gain on AFS securities arising during the period	6,638	(10,053)	19,955	(1,582)
Related income tax effect	(2,403)	3,639	(7,224)	573
Net reclassification adjustment for (gains) losses included in net income	(246)	(3)	(250)	(49)
Related income tax expense (benefit)	90	1	91	18
	4,079	(6,416)	12,572	(1,040)
<b>Net effect of AFS securities on other comprehensive income</b>	<b>4,316</b>	<b>(6,100)</b>	<b>12,809</b>	<b>(766)</b>
Held to maturity ( HTM ) securities:				
Accretion on the unrealized loss for securities transferred from AFS to the HTM investment portfolio prior to call or maturity	3	4	4	5
Related income tax expense	(2)	(2)	(2)	(2)
<b>Net effect of HTM securities on other comprehensive income</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>
Pension plan:				
Recognized net actuarial loss	1,149	1,222	2,297	2,430
Related income tax benefit	(420)	(454)	(839)	(894)
<b>Net effect of change in pension plan asset on other comprehensive income</b>	<b>729</b>	<b>768</b>	<b>1,458</b>	<b>1,536</b>
<b>Total change in other comprehensive income</b>	<b>5,046</b>	<b>(5,330)</b>	<b>14,269</b>	<b>773</b>
<b>Total Comprehensive Income</b>	<b>\$ 36,838</b>	<b>\$ 29,479</b>	<b>\$ 80,767</b>	<b>\$ 70,209</b>

**Table of Contents**

The components of accumulated other comprehensive income for the six months ended June 30, 2016 are as follows:

**Changes in Accumulated Other Comprehensive Income (AOCI) by Component <sup>(a)</sup>**

**For the Six Months Ended June 30, 2016**

<i>(Dollars in thousands)</i>	Unrealized Gains/Losses on AFS Securities	Accretion on the unrealized loss for securities transferred from AFS to the HTM	Defined Benefit Pension Items	Total
Balance at January 1, 2016	(\$ 2,515)	(\$ 57)	(\$ 35,640)	(\$ 38,212)
Other comprehensive income before reclassification	12,703	2	0	12,705
Amounts reclassified from accumulated other comprehensive income	106	0	1,458	1,564
Net current-period other comprehensive income, net of tax	12,809	2	1,458	14,269
Balance at June 30, 2016	\$ 10,294	(\$ 55)	(\$ 34,182)	(\$ 23,943)

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

**Reclassifications out of Accumulated Other Comprehensive Income (AOCI)**

**For the Six Months Ended June 30, 2016**

<i>(Dollars in thousands)</i>	Amount Reclassified from AOCI	Affected Line Item in the Statement Where Net Income is Presented
<b>Details about AOCI Components</b>		
Available for sale ( AFS ) securities:		
Reclassification of previous noncredit OTTI to credit OTTI	\$ 415	Total other-than-temporary impairment losses
Net reclassification adjustment for losses (gains) included in net income	(250)	Net gains on sales/calls of investment securities
	165	Total before tax
Related income tax effect	(59)	Tax expense
	106	Net of tax
Pension plan:		
Recognized net actuarial loss	2,297(a)	

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

	2,297	Total before tax
Related income tax effect	(839)	Tax expense
	1,458	Net of tax
Total reclassifications for the period	\$ 1,564	

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

**17. EARNINGS PER SHARE**

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Distributed earnings allocated to common stock	\$ 25,114	\$ 22,189	\$ 48,068	\$ 44,356
Undistributed earnings allocated to common stock	6,623	12,558	18,311	24,957
Net earnings allocated to common shareholders	\$ 31,737	\$ 34,747	\$ 66,379	\$ 69,313
Average common shares outstanding	71,483,703	69,305,612	70,490,596	69,256,831
Equivalents from stock options	325,318	281,805	276,368	275,008
Average diluted shares outstanding	71,809,021	69,587,417	70,766,964	69,531,839
Earnings per basic common share	\$ 0.44	\$ 0.50	\$ 0.94	\$ 1.00
Earnings per diluted common share	\$ 0.44	\$ 0.50	\$ 0.94	\$ 1.00

**Table of Contents****18. VARIABLE INTEREST ENTITIES**

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

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

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

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

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

United, through its banking subsidiaries, also makes limited partner equity investments in various low income housing and community development partnerships sponsored by independent third-parties. United invests in these

**Table of Contents**

partnerships to either realize tax credits on its consolidated federal income tax return or for purposes of earning a return on its investment. These partnerships are considered VIEs as the limited partners lack a controlling financial interest in the entities through their inability to make decisions that have a significant effect on the operations and success of the partnerships. United's limited partner interests in these entities is immaterial, however; these partnerships are not consolidated as United is not deemed to be the primary beneficiary.

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

	As of June 30, 2016			As of December 31, 2015		
	Aggregate Assets	Aggregate Liabilities	Risk Of Loss <sup>(1)</sup>	Aggregate Assets	Aggregate Liabilities	Risk Of Loss <sup>(1)</sup>
Trust preferred securities	\$ 240,563	\$ 232,536	\$ 8,027	\$ 240,468	\$ 232,492	\$ 7,976

(1) Represents investment in VIEs.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FORWARD-LOOKING STATEMENTS

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

United desires to provide its shareholders with sound information about past performance and future trends. Consequently, any forward-looking statements contained in this report, in a report incorporated by reference to this report, or made by management of United in this report, in any other reports and filings, in press releases and in oral statements, involve numerous assumptions, risks and uncertainties. Actual results could differ materially from those contained in or implied by United's statements for a variety of factors including, but not limited to: changes in economic conditions; business conditions in the banking industry; movements in interest rates; competitive pressures on product pricing and services; success and timing of business strategies; the nature and extent of governmental actions and reforms; and rapidly changing technology and evolving banking industry standards.

### RECENT DEVELOPMENTS

On July 1, 2015, the Durbin Amendment became effective for United. The Durbin Amendment, passed as part of the Dodd-Frank financial reform legislation, limits fees for debit card processing paid by merchants to banking companies with assets in excess of \$10 billion. The Durbin Amendment has significantly affected United's fees from deposit services since its effective date as discussed in the Other Income section of this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

On January 1, 2015, the Basel III Capital Rules became effective for United and its banking subsidiaries (subject to a phase-in period). The Basel III Capital Rules establishes 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



---

## **Table of Contents**

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.

### **INTRODUCTION**

The following discussion and analysis presents the significant changes in financial condition and the results of operations of United and its subsidiaries for the periods indicated below. This discussion and the unaudited consolidated financial statements and the notes to unaudited Consolidated Financial Statements include the accounts of United Bankshares, Inc. and its wholly-owned subsidiaries, unless otherwise indicated. Management has evaluated all significant events and transactions that occurred after June 30, 2016, but prior to the date these financial statements were issued, for potential recognition or disclosure required in these financial statements.

In addition, after the close of business on 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 results of operations of Bank of Georgetown are included in the consolidated results of operations from the date of acquisition. The acquisition of Bank of Georgetown enhances United's existing footprint in the Washington, D.C. MSA. Bank of Georgetown was merged with and into United Bank, an indirect wholly-owned subsidiary of United (the Merger) in a transaction 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.

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

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

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

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

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

---

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

The accounting and reporting policies of United conform with U.S. generally accepted accounting principles. In preparing the consolidated financial statements, management is required to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments, which are reviewed with the Audit Committee of the Board of Directors, are based on information available as of the date of the financial statements. Actual results could differ from these estimates. These policies, along with the disclosures presented in the financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for credit losses, the valuation of investment securities and the related other-than-temporary impairment analysis, 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.

*Allowance for Credit Losses*

As explained in Note 6, Allowance for Credit Losses to the unaudited Consolidated Financial Statements, the allowance for loan losses represents management's estimate of the probable credit losses inherent in the lending portfolio. Determining the allowance for loan losses requires management to make estimates of losses that are highly uncertain and require a high degree of judgment. At June 30, 2016, the allowance for loan losses was \$72.4 million and is subject to periodic adjustment based on management's assessment of current probable losses in the loan portfolio. Such adjustment from period to period can have a significant impact on United's consolidated financial statements. To illustrate the potential effect on the financial statements of our estimates of the allowance for loan losses, a 10% increase in the allowance for loan losses would have required \$7.2 million in additional allowance (funded by additional provision for credit losses), which would have negatively impacted the second quarter of 2016 net income by approximately \$4.7 million, after-tax or \$0.07 diluted per common share. Management's evaluation of the adequacy of the allowance for loan losses and the appropriate provision for loan losses is based upon a quarterly evaluation of the loan portfolio. This evaluation is inherently subjective and requires significant estimates, including estimates related to the amounts and timing of future cash flows, value of collateral, losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which are susceptible to constant and significant change. The allowance allocated to specific credits and loan pools grouped by similar risk characteristics is reviewed on a quarterly basis and adjusted as necessary based upon subsequent changes in circumstances. In determining the components of the allowance for loan losses, management considers the risk arising in part from, but not limited to, charge-off and delinquency trends, current economic and business conditions, lending policies and procedures, the size and risk characteristics of the loan portfolio, concentrations of credit, and other various factors. The methodology used to determine the allowance for loan losses is described in Note 6. A discussion of the factors leading to changes in the amount of the allowance for credit losses is included in the Provision for Credit Losses section of this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A). Additional information relating to United's loans is included in Note 4, Loans to the unaudited Consolidated Financial Statements.

*Investment Securities*

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

---

**Table of Contents**

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 3, Investment Securities, and Note 12, Fair Value Measurements, to the unaudited consolidated financial statements.

*Accounting for Acquired Loans*

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

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

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.

**Table of Contents**

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

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

*Income Taxes*

United's calculation of income tax provision is inherently complex due to the various different tax laws and jurisdictions in which we operate and requires management's use of estimates and judgments in its determination. The current income tax liability also includes income tax expense related to our uncertain tax positions as required in ASC topic 740, Income Taxes. Changes to the estimated accrued taxes can occur due to changes in tax rates, implementation of new business strategies, resolution of issues with taxing authorities and recently enacted statutory, judicial and regulatory guidance. These changes can be material to the Company's operating results for any particular reporting period. The analysis of the income tax provision requires the assessments of the relative risks and merits of the appropriate tax treatment of transactions, filing positions, filing methods and taxable income calculations after considering statutes, regulations, judicial precedent and other information. United strives to keep abreast of changes in the tax laws and the issuance of regulations which may impact tax reporting and provisions for income tax expense. United is also subject to audit by federal and state authorities. Because the application of tax laws is subject to varying interpretations, results of these audits may produce indicated liabilities which differ from United's estimates and provisions. United continually evaluates its exposure to possible tax assessments arising from audits and records its estimate of probable exposure based on current facts and circumstances. The potential impact to United's operating results for any of the changes cannot be reasonably estimated. See Note 15, Income Taxes, to the unaudited Consolidated Financial Statements for information regarding United's ASC topic 740 disclosures.

*Use of Fair Value Measurements*

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

At June 30, 2016, approximately 9.96% of total assets, or \$1.43 billion, consisted of financial instruments recorded at fair value. Of this total, approximately 94.48% or \$1.35 billion of these financial instruments used valuation methodologies involving observable market data, collectively Level 1 and Level 2 measurements, to determine fair value. Approximately \$78.78 million or 5.52% of these financial instruments were valued using unobservable market information or Level 3 measurements. Most of these financial instruments valued using unobservable market information were pooled trust preferred investment securities classified as available-for-sale. At June 30, 2016, only \$9.97 million or less than 1% of total liabilities were recorded at fair value. This entire amount was valued using

**Table of Contents**

methodologies involving observable market data. United does not believe that any changes in the unobservable inputs used to value the financial instruments mentioned above would have a material impact on United's results of operations, liquidity, or capital resources. See Note 12, Fair Value Measurements, to the unaudited Consolidated Financial Statements for additional information regarding ASC topic 820 and its impact on United's financial statements.

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

**FINANCIAL CONDITION**

United's total assets as of June 30, 2016 were \$14.34 billion which was an increase of \$1.76 billion or 13.99% from December 31, 2015, primarily the result of the acquisition of Bank of Georgetown on June 3, 2016. Portfolio loans increased \$1.04 billion or 11.07%, cash and cash equivalents increased \$244.13 million or 28.48%, investment securities increased \$278.97 million or 23.17%, goodwill increased \$155.92 million or 21.95%, other assets increased \$37.45 million or 9.90%, bank premises and equipment increased \$4.13 million or 5.65% and interest receivable increased \$1.87 million or 5.21% due primarily to the Bank of Georgetown merger. Total liabilities increased \$1.46 billion or 13.43% from year-end 2015. This increase in total liabilities was due mainly to an increase of \$974.33 million or 10.43% and \$466.94 million or 32.47% in deposits and borrowings, respectively, mainly due to the Bank of Georgetown acquisition. Shareholders' equity increased \$300.51 million or 17.55% from year-end 2015 due primarily to the acquisition of Bank of Georgetown.

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

**Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2016 increased \$244.13 million or 28.48% from year-end 2015. Of this total increase, interest-bearing deposits with other banks increased \$201.80 million or 28.03% as United placed more cash in an interest-bearing account with the Federal Reserve. In addition, cash and due from banks increased \$42.33 million or 30.97% and fed funds sold were flat. During the first six months of 2016, net cash of \$74.93 million and \$261.29 million was provided by operating activities and financing activities, respectively, while \$92.08 million was used in investing activities. See the unaudited Consolidated Statements of Cash Flows for data on cash and cash equivalents provided and used in operating, investing and financing activities for the first six months of 2016 and 2015.

**Securities**

Total investment securities at June 30, 2016 increased \$278.97 million or 23.17% from year-end 2015. Bank of Georgetown added \$219.78 million in investment securities, including purchase accounting amounts, upon consummation of the acquisition. Securities available for sale increased \$257.38 million or 24.14%. This change in securities available for sale reflects \$215.06 million acquired from Bank of Georgetown, \$193.98 million in sales, maturities and calls of securities, \$216.32 million in purchases, and an increase of \$19.70 million in market value. Securities held to maturity decreased \$5.07 million or 12.97% from year-end 2015 due to calls and maturities of securities. Other investment securities increased \$26.66 million or 27.00% from year-end 2015. Bank of Georgetown added \$4.72 million in other investment securities. Otherwise, Federal Reserve Bank (FRB) stock increased \$7.61 million and FHLB stock increased \$14.53 million.

**Table of Contents**

The following table summarizes the changes in the available for sale securities since year-end 2015:

<i>(Dollars in thousands)</i>	<b>June 30 2016</b>	<b>December 31 2015</b>	<b>\$ Change</b>	<b>% Change</b>
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 153,576	\$ 73,786	\$ 79,790	108.14%
State and political subdivisions	170,793	133,778	37,015	27.67%
Mortgage-backed securities	932,605	793,488	139,117	17.53%
Asset-backed securities	1,830	3,399	(1,569)	(46.16%)
Marketable equity securities	6,551	5,455	1,096	20.09%
Trust preferred collateralized debt obligations	32,009	34,686	(2,677)	(7.72%)
Single issue trust preferred securities	11,258	11,693	(435)	(3.72%)
Corporate securities	15,087	10,049	5,038	50.13%
<b>Total available for sale securities, at fair value</b>	<b>\$ 1,323,709</b>	<b>\$ 1,066,334</b>	<b>\$ 257,375</b>	<b>24.14%</b>

The following table summarizes the changes in the held to maturity securities since year-end 2015:

<i>(Dollars in thousands)</i>	<b>June 30 2016</b>	<b>December 31 2015</b>	<b>\$ Change</b>	<b>% Change</b>
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 5,347	\$ 10,425	\$ (5,078)	(48.71%)
State and political subdivisions	9,322	9,321	1	0.01%
Mortgage-backed securities	33	35	(2)	(5.71%)
Single issue trust preferred securities	19,307	19,298	9	0.05%
Other corporate securities	20	20	0	0.00%
<b>Total held to maturity securities, at amortized cost</b>	<b>\$ 34,029</b>	<b>\$ 39,099</b>	<b>\$ (5,070)</b>	<b>(12.97%)</b>

At June 30, 2016, gross unrealized losses on available for sale securities were \$20.44 million. Securities in an unrealized loss position at June 30, 2016 consisted primarily of Trup Cdos and single issue trust preferred securities. The Trup Cdos and the single issue trust preferred securities relate mainly to underlying securities of financial institutions.

As of June 30, 2016, United's mortgage-backed securities had an amortized cost of \$908.51 million, with an estimated fair value of \$932.65 million. The portfolio consisted primarily of \$601.02 million in agency residential mortgage-backed securities with a fair value of \$615.78 million, \$7.64 million in non-agency residential mortgage-backed securities with an estimated fair value of \$7.81 million, and \$299.85 million in commercial agency mortgage-backed securities with an estimated fair value of \$309.06 million. As of June 30, 2016, United's asset-backed securities had an amortized cost of \$1.83 million, with an estimated fair value of \$1.83 million.

As of June 30, 2016, United's corporate securities had an amortized cost of \$102.82 million, with an estimated fair value of \$80.35 million. The portfolio consisted primarily of \$49.28 million in Trup Cdos with a fair value of \$32.01 million and \$32.64 million in single issue trust preferred securities with an estimated fair value of \$26.68 million. In addition to the trust preferred securities, the Company held positions in various other corporate securities, including marketable equity securities, with an amortized cost of \$5.89 million and a fair value of \$6.55 million, only one of which was individually significant.

The Trup Cdos consisted of pools of trust preferred securities issued by trusts related primarily to financial institutions and to a lesser extent, insurance companies. The Company has no exposure to Real Estate Investment Trusts (REITs) in its investment portfolio. The Company owns both senior and mezzanine tranches in the Trup Cdos; however, the Company does not own any income notes. The senior and mezzanine tranches of Trup Cdos generally have some protection from defaults in the form of over-collateralization and excess spread revenues, along with waterfall structures



**Table of Contents**

that redirect cash flows in the event certain coverage test requirements have failed. Generally, senior tranches have the greatest protection, with mezzanine tranches subordinated to the senior tranches, and income notes subordinated to the mezzanine tranches. The fair value of senior tranches represents \$5.85 million of the Company's pooled securities, while mezzanine tranches represent \$26.16 million. Of the \$26.16 million in mezzanine tranches, \$8.18 million are now in the Senior position as the Senior notes have been paid to a zero balance. As of June 30, 2016, Trup Cdos with a fair value of \$3.68 million were investment grade, and the remaining \$28.33 million were below investment grade. In terms of capital adequacy, the Company allocates additional risk-based capital to the below investment grade securities. As of June 30, 2016, United's single issue trust preferred securities had a fair value of \$26.68 million. Of the \$26.68 million, \$12.24 million or 45.90% were investment grade; \$8.06 million or 30.20% were split rated; \$2.56 million or 9.62% were below investment grade; and \$3.81 million or 14.29% were unrated. The two largest exposures accounted for 53.6% of the \$26.68 million. These included Wells Fargo at \$8.43 million and SunTrust Bank at \$5.86 million. All single-issue trust preferred securities are currently receiving full scheduled principal and interest payments.

The following two tables provide a summary of Trup Cdos as of June 30, 2016:

Description (1)	Tranche	Class	Moodys	S&P	Fitch	Amortized Cost Basis	Fair Value	Unrealized Loss (Gain)	Cumulative Credit- Related OTTI
<i>(Dollars in thousands)</i>									
SECURITY 1	Senior	Sr	Ca	NR	WD	\$ 2,141	\$ 2,170	(\$ 29)	\$ 1,219
SECURITY 2	Senior (org Mezz)	B	Ca	NR	WD	6,428	3,113	3,315	7,398
SECURITY 4	Mezzanine	C	C	NR	C	1,313	1,126	187	1,546
SECURITY 5	Mezzanine	C-2	Caa2	NR	C	1,978	975	1,003	184
SECURITY 6	Mezzanine	C-1	Ca	NR	C	1,916	1,145	771	1,316
SECURITY 7	Mezzanine	B-1	Caa1	NR	C	4,489	2,908	1,581	41
SECURITY 8	Mezzanine	B-1	Ca	NR	C	3,677	2,153	1,524	1,651
SECURITY 12	Senior (org Mezz)	Mez	Caa1	NR	C	1,252	1,724	(472)	588
SECURITY 13	Senior (org Mezz)	Mez	Caa1	NR	C	856	1,006	(150)	406
SECURITY 14	Mezzanine	B-1	B1	NR	CC	3,300	1,875	1,425	422
SECURITY 15	Mezzanine	B	Caa3	NR	C	6,436	3,300	3,136	3,531
SECURITY 16	Mezzanine	B-2	Ca	NR	C	3,439	1,700	1,739	1,561
SECURITY 17	Mezzanine	B-1	Caa2	NR	C	2,250	1,500	750	750
SECURITY 18	Senior	A-3	Aaa	NR	AA	4,484	3,677	807	0
SECURITY 19	Senior (org Mezz)	B	Ba1	NR	BB	2,816	2,337	479	0
SECURITY 22	Mezzanine	B-1	B2	NR	C	2,500	1,300	1,200	0
						\$ 49,275	\$ 32,009	\$ 17,266	\$ 20,613

(1) Securities that are no longer owned by the Company have been removed from the tables.



**Table of Contents**

Desc.	# of Issuers Currently Performing (1)	Deferrals as % of Original Collateral	Defaults as a % of Original Collateral	Expected Deferrals and Defaults as a % of Remaining Performing Collateral (2)	Projected Recovery/Cure Rates on Deferring Collateral	Excess Subordination as % of Performing Collateral	Amortized Cost as a % of Par Value	Discount as a % of Par Value (3)
1	6	8.5%	13.3%	8.3%	25 - 85%	(91.2)%	61.2%	38.8%
2	6	0.7%	11.1%	6.0%	90%	(114.4)%	45.4%	54.6%
4	39	13.9%	12.1%	6.7%	0 - 90%	(5.1)%	43.1%	56.9%
5	42	3.0%	10.6%	6.5%	90%	(2.2)%	91.3%	8.7%
6	43	6.0%	13.0%	6.7%	30 - 90%	(17.1)%	58.5%	41.5%
7	19	0.0%	15.1%	5.9%	N/A	(10.5)%	84.9%	15.1%
8	25	1.5%	22.4%	6.1%	75%	(26.5)%	68.3%	31.7%
12	5	0.0%	14.5%	5.0%	N/A	(3.5)%	73.4%	26.6%
13	5	0.0%	14.5%	5.0%	N/A	(3.5)%	85.9%	14.1%
14	44	4.2%	9.6%	6.4%	0 - 90%	6.7%	88.0%	12.0%
15	18	0.8%	19.7%	8.0%	90%	(33.8)%	64.4%	35.6%
16	14	0.0%	18.8%	5.8%	N/A	(17.7)%	68.8%	31.2%
17	28	3.0%	9.5%	6.8%	90%	0.8%	75.0%	25.0%
18	28	3.2%	14.6%	5.7%	15%	68.7%	100.0%	0.0%
19	5	0.0%	4.6%	5.5%	N/A	36.3%	100.0%	0.0%
22	31	3.7%	6.3%	6.5%	50 - 90%	8.8%	100.0%	0.0%

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

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

The calculation of excess subordination in the above table does not consider the OTTI the Company has recognized on these securities. While the ratio of excess subordination provides some insight on overall collateralization levels, the Company completes an expected cash flow analysis each quarter to determine whether an adverse change in future cash flows has occurred under ASC 320. The standard specifies that a cash flow projection can be present-valued at the security specific effective interest rate and the resulting present value compared to the amortized cost in order to quantify the credit component of impairment. The Company utilizes the cash flow models to determine the net realizable value and assess whether additional OTTI has occurred.

While the ratio of excess subordination provides some insight on overall collateralization levels, the Company does not utilize this ratio to calculate OTTI. The ratio of excess subordination represents only one component of the projected cash flow. The Company believes the excess subordination is limited as it does not consider the following:

Waterfall structure and redirection of cash flows

Excess interest spread

Cash reserves

The collateral backing of a particular tranche can be increased by decreasing the more senior liabilities of the Trup Cdo tranche. This occurs when collateral deterioration due to defaults and deferrals triggers alternative waterfall provisions of the cash flow. The waterfall structure of the

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

bond requires the excess spread to be rerouted away from the most junior classes of debt (which includes the income notes) in order to pay down the principal of the most senior liabilities. As these senior liabilities are paid down, the senior and mezzanine tranches become better secured (due to the rerouting away from the income notes). Therefore, variances will exist between the calculated excess subordination measure and the amount of OTTI recognized due to the impact of the specific structural features of each bond as it relates to the cash flow models.

**Table of Contents**

The following is a summary of available for sale single-issue trust preferred securities with at least one rating below investment grade as of June 30, 2016:

Security	Moody's	S&P	Fitch	Amortized Cost	Fair Value	Unrealized Loss/ (Gain)
<i>(Dollars in thousands)</i>						
Emigrant	NR	NR	WD	\$ 5,690	\$ 3,810	\$ 1,880
Bank of America	Ba1	NR	BBB-	4,643	4,150	493
M&T Bank	NR	BBB-	BBB-	3,004	3,298	(294)
				\$ 13,337	\$ 11,258	\$ 2,079

Additionally, the Company owns two single-issue trust preferred securities that are classified as held-to-maturity and include at least one rating below investment grade. These securities include SunTrust Bank (\$7.41 million) and Royal Bank of Scotland (\$975 thousand).

During the second quarter of 2016, United recognized other-than-temporary impairment charges of \$33 thousand on two non-agency residential mortgage-backed investment securities, which are not expected to be sold. Management does not believe that any individual security with an unrealized loss as of June 30, 2016 is other-than-temporarily impaired. United believes the decline in value resulted from changes in market interest rates, credit spreads and liquidity, not an adverse change in the expected contractual cash flows. Based on a review of each of the securities in the investment portfolio, management concluded that it was not probable that it would be unable to realize the cost basis investment and appropriate interest payments on such securities. United has the intent and the ability to hold these securities until such time as the value recovers or the securities mature. However, United acknowledges that any impaired securities may be sold in future periods in response to significant, unanticipated changes in asset/liability management decisions, unanticipated future market movements or business plan changes.

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

**Loans**

Loans held for sale decreased \$4.46 million or 41.71% as loan sales in the secondary market exceeded loan originations during the first six months of 2016. Portfolio loans, net of unearned income, increased \$1.04 billion or 11.07% from year-end 2015 mainly as a result of the Bank of Georgetown acquisition which added \$966.21 million, including purchase accounting amounts, in portfolio loans. Since year-end 2015, commercial, financial and agricultural loans increased \$810.93 million or 14.94% as commercial real estate loans increased \$729.15 million and commercial loans (not secured by real estate) increased \$81.79 million. In addition, residential real estate loans and other consumer loans increased \$134.78 million or 5.94% and \$80.57 million or 18.70%, respectively, while construction and land development loans increased \$12.12 million or less than 1%. These increases were due primarily to the Bank of Georgetown acquisition. Otherwise, portfolio loans, net of unearned income, grew organically \$79.92 million from year-end 2015.

**Table of Contents**

The following table summarizes the changes in the major loan classes since year-end 2015:

<i>(Dollars in thousands)</i>	<b>June 30 2016</b>	<b>December 31 2015</b>	<b>\$ Change</b>	<b>% Change</b>
Loans held for sale	\$ 6,226	\$ 10,681	\$ (4,455)	(41.71%)
Commercial, financial, and agricultural:				
Owner-occupied commercial real estate	\$ 877,393	\$ 927,746	\$ (50,353)	(5.43%)
Nonowner-occupied commercial real estate	3,675,865	2,896,367	779,498	26.91%
Other commercial loans	1,684,008	1,602,222	81,786	5.10%
Total commercial, financial, and agricultural	\$ 6,237,266	\$ 5,426,335	\$ 810,931	14.94%
Residential real estate	2,403,466	2,268,685	134,781	5.94%
Construction & land development	1,285,171	1,273,054	12,117	0.95%
Consumer:				
Bankcard	12,074	11,653	421	3.61%
Other consumer	499,377	419,225	80,152	19.12%
Less: Unearned income	(14,496)	(14,872)	376	(2.53%)
<b>Total Loans, net of unearned income</b>	<b>\$ 10,422,858</b>	<b>\$ 9,384,080</b>	<b>\$ 1,038,778</b>	<b>11.07%</b>

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

**Other Assets**

Other assets increased \$37.45 million or 9.90% from year-end 2015. The Bank of Georgetown acquisition added \$27.83 million in other assets plus an additional \$11.41 million in core deposit intangibles. The cash surrender value of bank-owned life insurance policies increased \$15.36 million, of which, \$13.03 million was acquired from Bank of Georgetown while the remaining increase was due to a slight increase in the cash surrender value. The remainder of the increase in other assets is the result of an increase of \$2.67 million in OREO and an increase of \$7.74 million in income taxes receivable.

**Deposits**

Deposits represent United's primary source of funding. Total deposits at June 30, 2016 increased \$974.33 million or 10.43% from year-end 2015 as a result of the Bank of Georgetown acquisition. Bank of Georgetown added \$971.69 million in deposits, including purchase accounting amounts. In terms of composition, noninterest-bearing deposits increased \$441.19 million or 16.34% while interest-bearing deposits increased \$533.14 million or 8.03% from December 31, 2015. Organically, deposits only grew \$2.64 million from year-end 2015.

The increase in noninterest-bearing deposits was due mainly to increases in commercial noninterest-bearing deposits of \$402.60 million or 20.07%, personal noninterest-bearing deposits of \$14.61 million or 2.80% and noninterest-bearing public funds of \$6.40 million or 8.40% as a result of the Bank of Georgetown acquisition.

All major categories of interest-bearing deposits except time deposits under \$100,000 increased from year-end 2015 as the result of the Bank of Georgetown acquisition. Interest-bearing checking accounts increased \$54.76 million or 3.25% mainly due to a \$91.63 million increase in commercial interest-bearing checking accounts which was partially offset by a \$46.05 million decrease in personal interest-bearing checking accounts. Interest-bearing MMDAs increased \$335.95 million or 14.19% as commercial MMDAs increased \$148.69 million or 10.99% and personal MMDAs increased \$85.02 million or 8.64%. Time deposits over \$100,000 increased \$166.88 million or 15.12% due to brokered deposits increasing \$119.63 million, as a result of the Bank of Georgetown acquisition, and public funds CDs increasing \$56.25 million, which was partially offset by Certificate of Deposit Account Registry Service (CDARS) balances decreasing

**Table of Contents**

\$17.20 million. Regular savings increased \$22.39 million or 3.24%. Time deposits under \$100,000 decreased \$46.84 million or 5.90%. This decrease in time deposits under \$100,000 is the result of a \$41.87 million decrease in fixed rate certificates of deposits (CDs) and a \$6.93 million decrease in variable rate CDs.

The following table summarizes the changes in the deposit categories since year-end 2015:

<i>(Dollars in thousands)</i>	June 30 2016	December 31 2015	\$ Change	% Change
Demand deposits	\$ 3,141,148	\$ 2,699,958	\$ 441,190	16.34%
Interest-bearing checking	1,738,079	1,683,316	54,763	3.25%
Regular savings	714,469	692,079	22,390	3.24%
Money market accounts	2,704,008	2,368,063	335,945	14.19%
Time deposits under \$100,000	747,587	794,428	(46,841)	(5.90%)
Time deposits over \$100,000 <sup>(1)</sup>	1,270,562	1,103,683	166,879	15.12%
<b>Total deposits</b>	<b>\$ 10,315,853</b>	<b>\$ 9,341,527</b>	<b>\$ 974,326</b>	<b>10.43%</b>

(1) Includes time deposits of \$250,000 or more of \$587,246 and \$386,484 at June 30, 2016 and December 31, 2015, respectively.

**Borrowings**

Total borrowings at June 30, 2016 increased \$466.94 million or 32.47% during the first six months of 2016. Bank of Georgetown added \$166.02 million, including purchase accounting amounts, upon consummation of the acquisition. Since year-end 2015, short-term borrowings increased \$312.30 million or 73.82% due to increases of \$290 million and \$36.23 million in short-term FHLB advances and short-term securities sold under agreements to repurchase, respectively, which were partially offset by a \$13.93 million decrease in federal funds purchased. Bank of Georgetown added \$101.02 million in short-term borrowings. Long-term borrowings increased \$154.64 million or 15.23% since year-end 2015 as long-term FHLB advances increased \$154.95 million. Bank of Georgetown added \$65 million in long-term borrowings.

The table below summarizes the change in the borrowing categories since year-end 2015:

<i>(Dollars in thousands)</i>	June 30 2016	December 31 2015	\$ Change	% Change
Federal funds purchased	\$ 8,300	\$ 22,230	\$ (13,930)	(62.66%)
Short-term securities sold under agreements to repurchase	327,023	290,798	36,225	12.46%
Long-term securities sold under agreements to repurchase	50,123	50,863	(740)	(1.45%)
Short-term FHLB advances	400,000	110,000	290,000	263.64%
Long-term FHLB advances	895,829	740,880	154,949	20.91%
Issuances of trust preferred capital securities	223,940	223,506	434	0.19%
<b>Total borrowings</b>	<b>\$ 1,905,215</b>	<b>\$ 1,438,277</b>	<b>\$ 466,938</b>	<b>32.47%</b>

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

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities at June 30, 2016 increased \$17.84 million or 21.10% from year-end 2015. Bank of Georgetown added \$13.86 million. In particular, deferred compensation increased \$6.92 million, other accrued expenses increased \$8.06 million and dividends payable increased \$2.19 million. Partially offsetting these increases in accrued expenses and other liabilities was a decrease of \$3.35 million in other employee withholdings and a decline of \$1.20 million in incentives payable due to timing difference in payments.



**Table of Contents****Shareholders' Equity**

Shareholders' equity at June 30, 2016 increased \$300.51 million or 17.55% from December 31, 2015 mainly as a result of the Bank of Georgetown acquisition. The Bank of Georgetown transaction added approximately \$264.51 million as 6,527,746 shares were issued from United's authorized but unissued shares for the merger at a cost of approximately \$253.80 million. Earnings net of dividends for the first six months of 2016 were \$18.34 million.

Accumulated other comprehensive income increased \$14.27 million due mainly to an increase of \$12.57 million in United's available for sale investment portfolio, net of deferred income taxes. The after tax non-credit portion of pension costs was \$1.46 million for the first six months of 2016.

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

Net income for the first six months of 2016 was \$66.50 million or \$0.94 per diluted share compared to \$69.44 million or \$1.00 per share for the first six months of 2015. Net income for the second quarter of 2016 was \$31.79 million or \$0.44 per diluted share, as compared to \$34.81 million or \$0.50 per diluted share for the prior year second quarter.

As previously mentioned, United completed its acquisition of Bank of Georgetown after the close of business on June 3, 2016. The financial results of Bank of Georgetown are included in United's results from the acquisition date. As a result, the first half and second quarter of 2016 were impacted for approximately a month by increased levels of average balances, income, and expense as compared to the first half and second quarter of 2015 and the first quarter of 2016 due to the acquisition. In addition, the first half and second quarter of 2016 included \$4.68 million and \$4.47 million, respectively, of merger-related expenses.

United's annualized return on average assets for the first six months of 2016 was 1.06% and return on average shareholders' equity was 7.51% as compared to 1.15% and 8.30% for the first six months of 2015. For the second quarter of 2016, United's annualized return on average assets was 1.00% and return on average shareholders' equity was 6.99% as compared to 1.15% and 8.23% for the second quarter of 2015. United's Federal Reserve peer group's (bank holding companies with total assets over \$10 billion) most recently reported average return on assets and average return on equity were 0.86% and 7.44%, respectively, for the first quarter of 2016.

Net interest income for the first half of 2016 was \$201.01 million, an increase of \$10.36 million or 5.43% from the prior year's first six months. The increase in net interest income occurred because total interest income increased \$11.50 million while total interest expense only increased \$1.14 million from the first six months of 2015. Net interest income for the second quarter of 2016 was \$102.73 million, an increase of \$6.82 million or 7.11% from prior year's second quarter. The increase in net interest income occurred because total interest income increased \$7.56 million while total interest expense only increased \$732 thousand from the second quarter of 2015.

The provision for credit losses was \$11.70 million and \$7.67 million for the first six months and second quarter of 2016, respectively, as compared to \$11.07 million and \$5.72 million for the first six months and second quarter of 2015, respectively. Noninterest income for the first six months of 2016 was \$34.36 million which was a decrease of \$3.33 million or 8.84% from the first six months of 2015. For the second quarter of 2016, noninterest income was \$17.97 million, which was a decrease of \$1.53 million or 7.85% from the second quarter of 2015. These decreases from 2015 were mainly due to lower fees from deposit services as a result of the Durbin Amendment being effective for United on July 1, 2015. For the first six months of 2016, noninterest expense increased \$7.53 million or 6.52% from the first six months of 2015. For the second quarter of 2016, noninterest expense increased \$7.13 million or 12.34% from the second quarter of 2015. These increases from 2015 were due mainly to the Bank of Georgetown merger-related expenses.

---

**Table of Contents**

For the first six months of 2016 and 2015, income tax expense was \$34.26 million and \$32.45 million, respectively. The effective tax rate for the first six months of 2016 and 2015 was 34.00% and 31.85%, respectively. Income taxes for the first half 2015 included historical tax credits. Income taxes for the second quarter of 2016 were \$16.38 million as compared to \$17.15 million for the second quarter of 2015 due to lower earnings. For the quarters ended June 30, 2016 and 2015, United's effective tax rate was 34.00% and 33.00%, respectively.

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

**Net Interest Income**

Net interest income represents the primary component of United's earnings. It is the difference between interest income from earning assets and interest expense incurred to fund these assets. Net interest income is impacted by changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as changes in market interest rates. Such changes, and their impact on net interest income in 2016 and 2015, are presented below.

Net interest income for the first six months of 2016 was \$201.01 million, which was an increase of \$10.36 million or 5.43% from the first half of 2015. The \$10.36 million increase in net interest income occurred because total interest income increased \$11.52 million while total interest expense only increased \$1.14 million from the first six months of 2015. Net interest income for the second quarter of 2016 was \$102.73 million, which was an increase of \$6.82 million or 7.11% from the second quarter of 2015. The \$6.82 million increase in net interest income occurred because total interest income increased \$7.56 million while total interest expense only increased \$732 thousand from the second quarter of 2015. On a linked-quarter basis, net interest income for the second quarter of 2016 increased \$4.44 million or 4.52% from the first quarter of 2016. The \$4.44 million increase in net interest income occurred because total interest income increased \$4.59 million while total interest expense only increased \$150 thousand from the first quarter of 2016. Generally, interest income for the first six months of 2016 increased from the first six months of 2015 because of the earning assets added from the Bank of Georgetown acquisition. In addition, loan accretion on previously acquired loans for the first six months and second quarter of 2016 increased from the same time periods last year and the first quarter of 2016. For the purpose of this remaining discussion, net interest income is presented on a tax-equivalent basis to provide a comparison among all types of interest earning assets. The tax-equivalent basis adjusts for the tax-favored status of income from certain loans and investments. Although this is a non-GAAP measure, United's management believes this measure is more widely used within the financial services industry and provides better comparability of net interest income arising from taxable and tax-exempt sources. United uses this measure to monitor net interest income performance and to manage its balance sheet composition.

Tax-equivalent net interest income for the first half of 2016 was \$204.02 million, an increase of \$10.20 million or 5.26% from the first half of 2015. This increase in tax-equivalent net interest income was primarily attributable to an increase in average earning assets from the Bank of Georgetown acquisition. Average earning assets increased \$415.52 million or 3.85% from the first half of 2015. Average net loans increased \$493.20 million or 5.48% for the first half of 2016. Average investment securities decreased \$59.16 million or 4.59% while short-term investments decreased \$18.51 million or 3.62%. In addition, the average yield on earning assets increased 4 basis points from the first half of 2015 due to additional loan accretion of \$3.11 million on previously acquired loans and higher market interest rates. Partially offsetting the increases to tax-equivalent net interest income for the first half of 2016 was an increase of 2 basis points in the average cost of funds as compared to the first half of 2015 due to higher market interest rates. The net interest margin of 3.66% for the first half of 2016 was an increase of 5 basis points from the net interest margin of 3.61% for the first half of 2015.



**Table of Contents**

Tax-equivalent net interest income for the second quarter of 2016 was \$104.24 million, an increase of \$6.74 million or 6.91% from the second quarter of 2015 due mainly to an increase in average earning assets from the Bank of Georgetown acquisition. Average earning assets for the second quarter of 2016 increased \$599.26 million or 5.54% from the second quarter of 2015 due mainly to a \$648.42 million or 7.18% increase in average net loans. Average short-term investments decreased \$38.96 million or 7.68% while average investment securities were relatively flat, decreasing \$10.21 million or less than 1%. The second quarter of 2016 average yield on earning assets increased 7 basis points from the second quarter of 2015 due to additional loan accretion of \$1.98 million on previously acquired loans and higher market interest rates. Partially offsetting the increases to tax-equivalent net interest income for the second quarter of 2016 was an increase of 2 basis points in the average cost of funds as compared to the second quarter of 2015 due to the higher market interest rates. The net interest margin of 3.67% for the second quarter of 2016 was an increase of 5 basis points from the net interest margin of 3.62% for the second quarter of 2015.

On a linked-quarter basis, United's tax-equivalent net interest income for the second quarter of 2016 increased \$4.46 million or 4.47% due mainly to an increase in average earning assets from the Bank of Georgetown merger. Average earning assets increased \$399.80 million or 3.63% for the linked-quarter. Average net loans increased \$378.56 million or 4.07% while average investment securities increased \$71.51 million or 5.98%. Average short-term investments decreased \$50.26 million or 9.69%. In addition, the second quarter of 2016 average yield on earning assets increased 3 basis points from the first quarter of 2016 due to additional loan accretion of \$1.12 million on previously acquired loans and the average cost of funds declined a basis point. The net interest margin of 3.67% for the second quarter of 2016 was an increase of 3 basis points from the net interest margin of 3.64% for the first quarter of 2016.

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

The following table provides the discount/premium and net accretion impact to tax-equivalent net interest income for the three months ended June 30, 2016, June 30, 2015 and March 31, 2016 and the six months ended June 30, 2016 and June 30, 2015:

<i>(Dollars in thousands)</i>	Three Months Ended		
	June 30 2016	June 30 2015	March 31 2016
Loan accretion	\$ 4,374	\$ 2,394	\$ 3,255
Certificates of deposit	0	523	0
Long-term borrowings	153	152	153
Total	\$ 4,527	\$ 3,069	\$ 3,408

<i>(Dollars in thousands)</i>	Six Months Ended	
	June 30 2016	June 30 2015
Loan accretion	\$ 7,629	\$ 4,523
Certificates of deposit	0	1,241
Long-term borrowings	306	305
Tax-equivalent net interest income	\$ 7,935	\$ 6,069

**Table of Contents**

The following tables reconcile the difference between net interest income and tax-equivalent net interest income for the three months ended June 30, 2016, June 30, 2015 and March 31, 2016 and the six months ended June 30, 2016 and June 30, 2015.

<i>(Dollars in thousands)</i>	<b>Three Months Ended</b>		
	<b>June 30 2016</b>	<b>June 30 2015</b>	<b>March 31 2016</b>
Net interest income, GAAP basis	\$ 102,725	\$ 95,902	\$98,284
Tax-equivalent adjustment (1)	1,513	1,594	1,493
<b>Tax-equivalent net interest income</b>	<b>\$ 104,238</b>	<b>\$ 97,496</b>	<b>\$99,777</b>

<i>(Dollars in thousands)</i>	<b>Six Months Ended</b>	
	<b>June 30 2016</b>	<b>June 30 2015</b>
Net interest income, GAAP basis	\$ 201,009	\$ 190,651
Tax-equivalent adjustment (1)	3,006	3,163
<b>Tax-equivalent net interest income</b>	<b>\$ 204,015</b>	<b>\$ 193,814</b>

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

**Table of Contents**

The following tables show the unaudited consolidated daily average balance of major categories of assets and liabilities for the three-month and six-month periods ended June 30, 2016 and 2015, respectively, with the interest and rate earned or paid on such amount. The interest income and yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%. Interest income on all loans and investment securities was subject to state income taxes.

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Average Balance	Interest (1)	Avg. Rate (1)	Average Balance	Interest (1)	Avg. Rate (1)
<i>(Dollars in thousands)</i>						
<b>ASSETS</b>						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	\$ 468,216	\$ 642	0.55%	\$ 507,175	\$ 350	0.28%
Investment Securities:						
Taxable	1,139,201	8,257	2.90%	1,157,719	7,582	2.62%
Tax-exempt	127,326	1,322	4.15%	119,015	1,379	4.64%
Total Securities	1,266,527	9,579	3.03%	1,276,734	8,961	2.81%
Loans, net of unearned income (2)	9,749,776	104,379	4.30%	9,101,514	97,815	4.31%
Allowance for loan losses	(75,457)			(75,617)		
Net loans	9,674,319		4.34%	9,025,897		4.35%
Total earning assets	11,409,062	\$ 114,600	4.04%	10,809,806	\$ 107,126	3.97%
Other assets	1,387,480			1,350,788		
<b>TOTAL ASSETS</b>	<b>\$ 12,796,542</b>			<b>\$ 12,160,594</b>		
<b>LIABILITIES</b>						
Interest-Bearing Funds:						
Interest-bearing deposits	\$ 6,601,335	\$ 6,670	0.41%	\$ 6,546,968	\$ 6,796	0.42%
Short-term borrowings	390,807	365	0.38%	317,569	209	0.26%
Long-term borrowings	1,106,972	3,327	1.21%	979,736	2,625	1.07%
Total Interest-Bearing Funds	8,099,114	10,362	0.51%	7,844,273	9,630	0.49%
Noninterest-bearing deposits	2,800,110			2,558,533		
Accrued expenses and other liabilities	69,134			60,631		
<b>TOTAL LIABILITIES</b>	<b>10,968,358</b>			<b>10,463,437</b>		
<b>SHAREHOLDERS EQUITY</b>	<b>1,828,184</b>			<b>1,697,157</b>		
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 12,796,542</b>			<b>\$ 12,160,594</b>		
<b>NET INTEREST INCOME</b>		<b>\$ 104,238</b>			<b>\$ 97,496</b>	
<b>INTEREST SPREAD</b>			<b>3.53%</b>			<b>3.48%</b>
<b>NET INTEREST MARGIN</b>			<b>3.67%</b>			<b>3.62%</b>

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

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

**Table of Contents**

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Average Balance	Interest (1)	Avg. Rate (1)	Average Balance	Interest (1)	Avg. Rate (1)
<i>(Dollars in thousands)</i>						
<b>ASSETS</b>						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	\$ 493,347	\$ 1,264	0.52%	\$ 511,859	\$ 681	0.27%
Investment Securities:						
Taxable	1,107,160	15,964	2.88%	1,171,077	15,771	2.69%
Tax-exempt	123,614	2,604	4.21%	118,861	2,733	4.60%
Total Securities	1,230,774	18,568	3.02%	1,289,938	18,504	2.87%
Loans, net of unearned income (2)	9,560,607	204,757	4.30%	9,067,331	194,059	4.31%
Allowance for loan losses	(75,566)			(75,485)		
Net loans	9,485,041		4.34%	8,991,846		4.35%
Total earning assets	11,209,162	\$ 224,589	4.02%	10,793,643	\$ 213,244	3.98%
Other assets	1,362,813			1,356,382		
<b>TOTAL ASSETS</b>	<b>\$ 12,571,975</b>			<b>\$ 12,150,025</b>		
<b>LIABILITIES</b>						
Interest-Bearing Funds:						
Interest-bearing deposits	\$ 6,593,788	\$ 13,555	0.41%	\$ 6,494,807	\$ 13,681	0.42%
Short-term borrowings	334,574	579	0.35%	344,389	440	0.26%
Long-term borrowings	1,064,921	6,440	1.22%	1,028,325	5,309	1.04%
Total Interest-Bearing Funds	7,993,283	20,574	0.52%	7,867,521	19,430	0.50%
Non-interest bearing deposits	2,731,209			2,533,254		
Accrued expenses and other liabilities	66,481			62,879		
<b>TOTAL LIABILITIES</b>	<b>10,790,973</b>			<b>10,463,654</b>		
<b>SHAREHOLDERS EQUITY</b>	<b>1,781,002</b>			<b>1,686,371</b>		
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 12,571,975</b>			<b>\$ 12,150,025</b>		
<b>NET INTEREST INCOME</b>		<b>\$ 204,015</b>			<b>\$ 193,814</b>	
<b>INTEREST SPREAD</b>			<b>3.50%</b>			<b>3.48%</b>
<b>NET INTEREST MARGIN</b>			<b>3.66%</b>			<b>3.61%</b>

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

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

**Provision for Loan Losses**

The provision for loan losses for the first six months of 2016 and 2015 was \$11.70 million and \$11.07 million, respectively. For the quarters ended June 30, 2016 and 2015, the provision for loan losses was \$7.67 million and \$5.72 million, respectively. The higher amount of provision for the second quarter of 2016 was due mainly to increased impairments on acquired loans and higher historical loss rates within the commercial loan portfolio. Net charge-offs for the first six months of 2016 were \$14.98 million as compared to \$11.38 million for the first six months of

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

2015. Net charge-offs were \$10.71 million for the second quarter of 2016 as compared to net charge-offs of \$6.07 million for the same quarter in 2015. These higher amounts of net charge-offs for 2016 compared to 2015 were primarily due to a large charge-off on a commercial loan relationship in the second quarter of 2016. On a linked-quarter basis, the provision for loan

## **Table of Contents**

losses increased \$3.63 million while net charge-offs increased \$6.44 million from the first quarter of 2016 due mainly to the large charge-off and a higher rate of loss recognition in the second quarter. Annualized net charge-offs as a percentage of average loans were 0.32% and 0.44% for the first six months and second quarter of 2016, respectively.

At June 30, 2016, nonperforming loans were \$113.05 million or 1.08% of loans, net of unearned income, down from nonperforming loans of \$126.71 million or 1.35% of loans, net of unearned income at December 31, 2015. The components of nonperforming loans include: 1) nonaccrual loans, 2) loans which are contractually past due 90 days or more as to interest or principal, but have not been put on a nonaccrual basis and 3) loans whose terms have been restructured for economic or legal reasons due to financial difficulties of the borrowers.

Loans past due 90 days or more were \$5.59 million at June 30, 2016, a decrease of \$6.03 million or 51.89% from \$11.63 million at year-end 2015. This decrease was due to the repayment of a loan that was 90 days or more past due at year-end 2015 as well as another significant past due loan being brought and kept current. At June 30, 2016, nonaccrual loans were \$82.51 million, a decrease of \$8.68 million or 9.52% from \$91.19 million at year-end 2015. This decrease was due to nonaccrual loans either transferred to OREO or charged-off. Restructured loans were \$24.94 million at June 30, 2016 which was an increase of \$1.05 million or 4.41% from \$23.89 million of restructured loans at year-end 2015. Six loans totaling \$6.61 million were restructured during the first half of 2016 while one loan for \$1.07 million was removed from restructured status due to a satisfactory payment history and loan terms which reflected a market rate of interest. The remaining difference was mainly due to repayments. The loss potential on these loans has been properly evaluated and allocated within the company's allowance for loan losses.

Nonperforming assets include nonperforming loans and real estate acquired in foreclosure or other settlement of loans (OREO). Total nonperforming assets of \$147.94 million, including OREO of \$34.89 million at June 30, 2016, represented 1.03% of total assets.

Loans are designated as impaired when, in the opinion of management, the collection of principal and interest in accordance with the loan contract is doubtful. At June 30, 2016, impaired loans were \$224.56 million, which was a decrease of \$30.61 million or 12.00% from \$255.18 million at December 31, 2015. For further details regarding impaired loans, see Note 5 to the unaudited Consolidated Financial Statements.

United maintains an allowance for loan losses and a reserve for lending-related commitments. The combined allowance for loan losses and reserve for lending-related commitments are referred to as the allowance for credit losses. At June 30, 2016 and December 31, 2015, the allowance for credit losses was \$73.84 million and \$76.66 million, respectively.

At June 30, 2016, the allowance for loan losses was \$72.45 million as compared to \$75.73 million at December 31, 2015. As a percentage of loans, net of unearned income, the allowance for loan losses was 0.70% at June 30, 2016 and 0.81% at December 31, 2015. In accordance with accounting rules, United is unable to carry-over an acquired banking company's previously established allowance for loan losses because acquired loans are recorded at fair value. Therefore, due to this acquisition accounting impact on the allowance for loan losses as well as loans, net of unearned income, management believes that excluding acquired loans in the calculation of the allowance for loan losses as a percentage of loans, net of unearned income separates the difference in the accounting rules for acquired loans and originated loans as well as provides for improved comparability to prior periods and to other financial institutions without acquired loans.

**Table of Contents**

The table below presents United's allowance for loan losses as a percentage of non-acquired loans, net of unearned income for the years ended June 30, 2016 and December 31, 2015:

<i>(Dollars in thousands)</i>	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Allowance for Loan Losses (GAAP)	\$ 72,448	\$ 75,726
Loans, net of unearned income (GAAP)	10,422,858	9,384,080
Less: Acquired Loans (non-GAAP)	(2,551,928)	(1,791,023)
Non-Acquired Loans, net of unearned income (non-GAAP)	\$ 7,870,930	\$ 7,593,057
Allowance for Loan Losses/ Non-acquired Loans, Net of Unearned Income (non-GAAP)	0.92%	1.00%

The ratio of the allowance for loan losses to nonperforming loans or coverage ratio was 64.09% and 59.76% at June 30, 2016 and December 31, 2015, respectively. The Company's detailed methodology and analysis indicated a minimal increase in the allowance for loan losses primarily because of the offsetting factors of changes within historical loss rates and reduced loss allocations on impaired loans.

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

United's formal company-wide review of the allowance for loan losses at June 30, 2016 produced decreased allocations in three of the six loan categories. The allocation related to the real estate construction and development loan pool decreased \$4.82 million due to a decrease in portfolio outstandings as well as historical loss rates applied to the portfolio. The residential real estate loan pool allocation decreased \$3.04 million due to an improvement in historical loss rates as well as recognition of losses previously allocated. The other commercial loan pool allocation decreased \$971 thousand due to the recognition of losses previously allocated. Partially offsetting these decreases was an increase in the commercial real estate owner-occupied loan pool allocation of \$3.32 million due to an increase in criticized loans within the portfolio and an increase in the corresponding historical loss rate. In addition, the commercial real estate nonowner-occupied loan pool allocation increased \$1.42 million due to an increase in the overall portfolio, an increase in criticized loans as well as an increase in historical loss rates. The consumer loan pool also experienced an increase of \$561 thousand due to an increase in portfolio outstandings and increase in historical loss rates. In summary, the overall level of the allowance for loan losses declined \$3.28 million or 4.33% from year-end 2015 as a result of the factors within the loan portfolio as described above.

An allowance is established for probable credit losses on impaired loans via specific allocations. Nonperforming commercial loans and leases are regularly reviewed to identify impairment. A loan or lease is impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts contractually due. Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Impairment is measured based upon the present value of expected future cash flows from the loan discounted at the loan's effective rate, the loan's observable market price or the fair value of collateral if the loan is collateral dependent. When the selected measure is less than the recorded investment in the loan, an impairment has occurred. The allowance for impaired loans was \$25.88 million at June 30, 2016 and \$27.79 million at December 31, 2015. In comparison to the prior year-end, this element of the allowance decreased by \$1.91 million primarily due to decreased specific allocations for other commercial loans and residential real estate loans.

Management believes that the allowance for credit losses of \$73.84 million at June 30, 2016 is adequate to provide for probable losses on existing loans and lending-related commitments based on information currently available. Note 6 to the accompanying unaudited Notes to Consolidated Financial Statements provides a progression of the allowance for loan losses by portfolio segment.





---

**Table of Contents**

United's loan administration policies are focused on the risk characteristics of the loan portfolio in terms of loan approval and credit quality. The commercial loan portfolio is monitored for possible concentrations of credit in one or more industries. Management has lending limits as a percentage of capital per type of credit concentration in an effort to ensure adequate diversification within the portfolio. Most of United's commercial loans are secured by real estate located in West Virginia, southeastern Ohio, Pennsylvania, Virginia, Maryland and the District of Columbia. It is the opinion of management that these commercial loans do not pose any unusual risks and that adequate consideration has been given to these loans in establishing the allowance for credit losses.

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

**Other Income**

Other income consists of all revenues, which are not included in interest and fee income related to earning assets. Noninterest income has been and will continue to be an important factor for improving United's profitability. Recognizing the importance, management continues to evaluate areas where noninterest income can be enhanced.

Noninterest income for the first half of 2016 was \$34.36 million, which was a decrease of \$3.33 million or 8.84% from the first half of 2015. Noninterest income for the second quarter of 2016 was \$17.97 million, a decrease of \$1.53 million or 7.85% from the second quarter of 2015. These decreases were mainly due to lower fees from deposit services as a result of the Durbin Amendment being effective for United on July 1, 2015. As previously mentioned, the Durbin Amendment, passed as part of the Dodd-Frank financial reform legislation, limits fees for debit card processing paid by merchants to banking companies with assets in excess of \$10 billion.

Fees from deposit services for the first six months of 2016 were \$16.36 million, a decrease of \$3.84 million or 19.02% from the first six months of 2015. Debit card income declined \$2.91 million for the first six months of 2016 as a result of the Durbin Amendment. In addition, income from overdraft fees declined \$774 thousand during the first six months of 2016. For the second quarter of 2016, fees from deposit services were \$8.39 million, a decrease of \$2.04 million or 19.59% from the second quarter of 2015. In particular, debit card income declined \$1.55 million due to the Durbin Amendment and income from overdraft fees declined \$460 thousand during the second quarter of 2016.

Mortgage banking income increased \$309 thousand or 25.58% for the first six months of 2016 from the same periods in 2015 due to increased spreads on the sales of mortgage loans in the secondary market. Mortgage loan sales were \$69.38 million in the first six months of 2016 as compared to \$73.85 million in the first six months of 2015.

On a linked-quarter basis, noninterest income for the second quarter of 2016 increased \$1.58 million or 9.61% from the first quarter of 2016. Fees from deposit services increased \$417 thousand as a result of increased debit card and automated teller machine (ATM) usage and bankcard fees increased \$527 thousand due to increased volume.

**Other Expenses**

Just as management continues to evaluate areas where noninterest income can be enhanced, it strives to improve the efficiency of its operations to reduce costs. Other expenses include all items of expense other than interest expense, the provision for loan losses, and income taxes. For the first six months of 2016, noninterest expense increased \$7.53 million or 6.52% from the first six months of 2015. Noninterest expense increased \$7.13 million or 12.34% for the second quarter of 2016 compared to the same period in 2015.

**Table of Contents**

Employee compensation increased \$3.92 million or 9.56% for the first six months of 2016 when compared to the first six months of 2015. Merger severance charges of \$365 thousand were included in the first half of 2016. Otherwise, base salaries increased \$2.25 million or 5.55% due mainly to merit increases and additional employees. Also, expense for employee incentives increased \$1.36 million. Employee compensation for the second quarter of 2016 increased \$1.91 million or 9.20% from the second quarter of 2015. In addition to the merger severance charges, base salaries increased \$1.31 million or 6.43% mainly due to merit increases and additional employees.

Employee benefits expense for the first six months of 2016 increased \$506 thousand or 3.78% as compared to the first six months of 2015. Employee benefits expense for the second quarter of 2016 increased \$706 thousand or 10.72% from the second quarter of 2015. Included in employee benefits expense for the first six months and second quarter of 2016 was \$584 thousand of expense on assumed benefit agreements from the Bank of Georgetown acquisition. Otherwise health insurance expense for the first half and second quarter of 2016 increased \$690 thousand and \$324 thousand from the same time periods last year due to higher premiums and additional employees.

Net occupancy expense increased \$955 thousand or 7.31% and \$1.23 million or 18.82% for the first six months and second quarter of 2016, respectively, as compared to the same periods in prior year. Included in net occupancy expense for the first six months and second quarter of 2016 were charges of \$1.58 million for the termination of leases for closed offices in the Bank of Georgetown acquisition.

Other real estate owned (OREO) expense for the first six months and second quarter of 2016 increased \$1.08 million or 48.25% and \$1.54 million or 137.56% from the first six months and second quarter of 2015 due to decreases in the fair value on OREO properties.

Data processing expense decreased \$463 thousand or 6.08% and \$271 thousand or 7.01% for the first six months and second quarter of 2016, respectively, as compared to the same periods in prior year.

Other expense for the first six months of 2016 increased \$1.41 million or 4.85% from the first six months of 2015. For the second quarter of 2016, other expense increased \$1.82 million or 12.56%. Included in other expense for the first six months and second quarter of 2016 were merger-related expenses of \$2.16 million and \$1.94 million, respectively.

On a linked-quarter basis, noninterest expense for the second quarter of 2016 increased \$6.80 million or 11.71% from the first quarter of 2016 generally due to additional operating and merger-related expenses from the Bank of Georgetown acquisition. In particular, employee compensation expense increased \$352 thousand due to the \$365 thousand of merger severance charges, employee benefits increased \$691 thousand due mainly to the \$584 thousand of expense on assumed benefit agreements, net occupancy expense increased \$1.52 million due to the \$1.58 million for the termination of leases, and other merger-related expenses increased \$1.72 million. In addition, OREO expense increased \$2.01 million due to a decline in the fair values of OREO properties.

**Income Taxes**

Income tax expense for the first half of 2016 and 2015 was \$34.26 million and \$32.45 million, respectively. For the first half of 2016 and 2015, United's effective tax rate was 34.00% and 31.85%, respectively. Included in income tax expense for the first half of 2015 were historical tax credits. Income taxes for the second quarter of 2016 were \$16.38 million as compared to \$17.15 million for the second quarter of 2015. This decline was primarily due to lower earnings. For the quarters ended June 30, 2016 and 2015, United's effective tax rate was 34.00% and 33.00%, respectively. On a linked-quarter basis, income tax expense for the second quarter of 2016 decreased \$1.50 million from the first quarter of 2016. These decreases were primarily due to lower earnings. For the first quarter of 2016, United's effective tax rate was 34.00%. For further details related to income taxes, see Note 15 of the unaudited Notes to Consolidated Financial Statements contained within this document.

## **Table of Contents**

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

United has various financial obligations, including contractual obligations and commitments, that may require future cash payments. Please refer to United's Annual Report on Form 10-K for the year ended December 31, 2015 for disclosures with respect to United's fixed and determinable contractual obligations. As previously mentioned, United completed its acquisition of Bank of Georgetown during the second quarter of 2016. As such, United assumed the financial obligations of Bank of Georgetown, including contractual obligations and commitments, which also may require future payments. Otherwise, there have been no material changes outside the ordinary course of business since year-end 2015 in the specified contractual obligations disclosed in United's Annual Report on Form 10-K.

As of June 30, 2016, United recorded a liability for uncertain tax positions, including interest and penalties, of \$2.20 million in accordance with ASC topic 740. This liability represents an estimate of tax positions that United has taken in its tax returns which may ultimately not be sustained upon examination by tax authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability is excluded from the contractual obligations table in the 2015 Form 10-K report.

United also enters into derivative contracts, mainly to protect against adverse interest rate movements on the value of certain assets or liabilities, under which it is required to either pay cash to or receive cash from counterparties depending on changes in interest rates. Derivative contracts are carried at fair value and not notional value on the consolidated balance sheet. Because the derivative contracts recorded on the balance sheet at June 30, 2016 do not present the amounts that may ultimately be paid under these contracts, they are excluded from the contractual obligations table in the 2015 Form 10-K report. Further discussion of derivative instruments is presented in Note 11 to the unaudited Notes to Consolidated Financial Statements.

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

### **Liquidity**

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

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

---

## **Table of Contents**

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

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

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

For the six months ended June 30, 2016, cash of \$74.93 million was provided by operating activities due mainly to net income of \$66.50 million for the first six months of 2016. Net cash of \$92.08 million was used in investing activities which was primarily due to net loan growth of \$79.92 million and net purchases of investment securities of \$39.03 million. Partially offsetting these uses of cash was net cash of \$29.33 million provided in the Bank of Georgetown acquisition. During the first six months of 2016, net cash of \$261.29 million was provided by financing activities due primarily to net proceeds from short-term borrowings of \$231.28 million and long-term FHLB borrowings of \$69.95 million. Partially offsetting these increases to cash was the payment of cash dividends in the amount of \$45.97 million for the first six months of 2016. The net effect of the cash flow activities was an increase in cash and cash equivalents of \$244.13 million for the first six months of 2016.

United anticipates it can meet its obligations over the next 12 months and has no material commitments for capital expenditures. There are no known trends, demands, commitments, or events that will result in or that are reasonably likely to result in United's liquidity increasing or decreasing in any material way. United also has lines of credit available. See Notes 8 and 9 to the accompanying unaudited Notes to Consolidated Financial Statements for more details regarding the amounts available to United under lines of credit.

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

## **Capital Resources**

United's capital position is financially sound. United seeks to maintain a proper relationship between capital and total assets to support growth and sustain earnings. United has historically generated attractive returns on shareholders' equity. United is well-capitalized based upon regulatory guidelines. United's risk-based capital ratio is 12.63% at June 30, 2016 while its Common Equity Tier 1 capital, Tier 1 capital and leverage ratios are 9.96%, 11.98% and 11.48%, respectively. The regulatory requirements for a well-capitalized financial institution are a risk-based capital ratio of 10.0%, a Common Equity Tier 1 capital ratio of 6.5%, a Tier 1 capital ratio of 8.0% and a leverage ratio of 5.0%.

Total shareholders' equity was \$2.01 billion at June 30, 2016, increasing \$300.51 million or 17.55% from December 31, 2015 primarily due to the Bank of Georgetown acquisition. United's equity to assets ratio was 14.04% at June 30, 2016 as compared to 13.62% at December 31, 2015. The primary capital ratio, capital and reserves to total assets and reserves, was 14.48% at June 30, 2016 as compared to 14.14% at December 31, 2015. United's average equity to average asset ratio was 14.17% for the first half of 2016 as compared to 13.88% for the first half of 2015. All of these financial measurements reflect a financially sound position.

## **Table of Contents**

During the second quarter of 2016, United's Board of Directors declared a cash dividend of \$0.33 per share. Cash dividends were \$0.66 per common share for the first six months of 2016. Total cash dividends declared were \$25.16 million for the second quarter of 2016 and \$48.16 million for the first six months of 2016 as compared to \$22.23 million and \$44.44 million, respectively, for the second quarter and first six months of 2015.

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

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

#### **Interest Rate Risk**

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

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

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

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

**Table of Contents**

The following table shows United's estimated earnings sensitivity profile as of June 30, 2016 and December 31, 2015:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income	
	June 30, 2016	December 31, 2015
+200	(1.65%)	(1.18%)
+100	(0.95%)	(0.85%)
-100	1.23%	2.62%
-200		

At June 30, 2016, given an immediate, sustained 100 basis point upward shock to the yield curve used in the simulation model, net interest income for United is estimated to decrease by 0.95% over one year as compared to a decrease of 0.85% at December 31, 2015. A 200 basis point immediate, sustained upward shock in the yield curve would decrease net interest income by an estimated 1.65% over one year as of June 30, 2016, as compared to a decrease of 1.18% as of December 31, 2015. A 100 basis point immediate, sustained downward shock in the yield curve would increase net interest income by an estimated 1.23% over one year as of June 30, 2016 as compared to an increase of 2.62%, over one year as of December 31, 2015. With the federal funds rate 0.50% at June 30, 2016 and December 31, 2015, management believed a 200 basis point immediate, sustained decline in rates was highly unlikely.

This analysis does not include the potential increased refinancing activities, which should lessen the negative impact on net income from falling rates. While it is unlikely market rates would immediately move 100 or 200 basis points upward or downward on a sustained basis, this is another tool used by management and the Board of Directors to gauge interest rate risk. All of these estimated changes in net interest income are and were within the policy guidelines established by the Board of Directors.

To further aid in interest rate management, United's subsidiary banks are members of the Federal Home Loan Bank (FHLB). The use of FHLB advances provides United with a low risk means of matching maturities of earning assets and interest-bearing funds to achieve a desired interest rate spread over the life of the earning assets. In addition, United uses credit with large regional banks and trust preferred securities to provide funding.

As part of its interest rate risk management strategy, United may use derivative instruments to protect against adverse price or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives commonly consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. Interest rate swaps obligate two parties to exchange one or more payments generally calculated with reference to a fixed or variable rate of interest applied to the notional amount. United accounts for its derivative activities in accordance with the provisions of ASC topic 815, Derivatives and Hedging.

**Extension Risk**

A key feature of most mortgage loans is the ability of the borrower to repay principal earlier than scheduled. This is called a prepayment. Prepayments arise primarily due to sale of the underlying property, refinancing, or foreclosure. In general, declining interest rates tend to increase prepayments, and rising interest rates tend to slow prepayments. Like other fixed-income securities, when interest rates rise, the value of mortgage-related securities generally declines. The rate of prepayments on underlying mortgages will affect the price and volatility of mortgage-related securities and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. If interest rates rise, United's holdings of mortgage-related securities may experience reduced returns if the borrowers of the underlying mortgages pay off their mortgages later than anticipated. This is generally referred to as extension risk.

At June 30, 2016, United's mortgage related securities portfolio had an amortized cost of \$909 million, of which approximately \$500 million or 55% were fixed rate collateralized mortgage obligations (CMOs). These fixed rate CMOs consisted primarily of planned amortization class (PACs), sequential-pay and accretion directed (VADMs) bonds having an average life of approximately 3.4 years and a weighted average yield of 2.61%, under current

## **Table of Contents**

projected prepayment assumptions. These securities are expected to have very little extension risk in a rising rate environment. Current models show that an immediate, sustained upward shock of 300 basis points, the average life of these securities would only extend to 4.9 years. The projected price decline of the fixed rate CMO portfolio in rates up 300 basis points would be 10.6%, or less than the price decline of a 4-year treasury note. By comparison, the price decline of a 30-year current coupon mortgage backed security (MBS) an immediate, sustained upward shock of 300 basis points would be approximately 16.9%.

United had approximately \$251 million in balloon and other securities with a projected yield of 1.91% and a projected average life of 4 years on June 30, 2016. This portfolio consisted primarily of Fannie Mae Delegated Underwriting and Servicing (DUS) mortgage backed securities (MBS) with a weighted average loan age (WALA) of 3.2 years and a weighted average maturity (WAM) of 4.3 years.

United had approximately \$60 million in 15-year mortgage backed securities with a projected yield of 2.01% and a projected average life of 3 years as of June 30, 2016. This portfolio consisted of seasoned 15-year mortgage paper with a weighted average loan age (WALA) of 4.3 years and a weighted average maturity (WAM) of 10.7 years.

United had approximately \$41 million in 20-year mortgage backed securities with a projected yield of 2.76% and a projected average life of 4 years on June 30, 2016. This portfolio consisted of seasoned 20-year mortgage paper with a weighted average loan age (WALA) of 4 years and a weighted average maturity (WAM) of 15.4 years.

United had approximately \$34 million in 30-year mortgage backed securities with a projected yield of 2.68% and a projected average life of 3.6 years on June 30, 2016. This portfolio consisted of seasoned 30-year mortgage paper and Home Equity Conversion Mortgages with a weighted average loan age (WALA) of 3.6 years and a weighted average maturity (WAM) of 32 years.

The remaining 2% of the mortgage related securities portfolio at June 30, 2016, included adjustable rate securities (ARMs), 10-year mortgage backed pass-through securities and other fixed rate mortgage backed securities.

## **Item 4. CONTROLS AND PROCEDURES**

As of June 30, 2016, an evaluation was performed under the supervision of and with the participation of United's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of United's disclosure controls and procedures. Based on that evaluation, United's management, including the CEO and CFO, concluded that United's disclosure controls and procedures as of June 30, 2016 were effective in ensuring that information required to be disclosed in the Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time period required by the Securities and Exchange Commission's rules and forms. There have been no changes in United's internal control over financial reporting that occurred during the quarter ended June 30, 2016, or in other factors that have materially affected or are reasonably likely to materially affect United's internal control over financial reporting.



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

United and its subsidiaries are currently involved in various legal proceedings in the normal course of business. Management is vigorously pursuing all its legal and factual defenses and, after consultation with legal counsel, believes that all such litigation will be resolved with no material effect on United's financial position.

**Item 1A. RISK FACTORS**

In addition to the other information set forth in this report, please refer to United's Annual Report on Form 10-K for the year ended December 31, 2015 for disclosures with respect to United's risk factors which could materially affect United's business, financial condition or future results. The risks described in the Annual Report on Form 10-K are not the only risks facing United. Additional risks and uncertainties not currently known to United or that United currently deems to be immaterial also may materially adversely affect United's business, financial condition and/or operating results. There are no material changes from the risk factors disclosed in United's Annual Report on Form 10-K for the year ended December 31, 2015.

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

There have been no United equity securities sales during the quarter ended June 30, 2016 that were not registered. The table below includes certain information regarding United's purchase of its common shares during the quarter ended June 30, 2016:

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)
4/01 4/30/2016	0	\$ 00.00	0	322,200
5/01 5/31/2016	5	\$ 36.67	0	322,200
6/01 6/30/2016	0	\$ 00.00	0	322,200
Total	5	\$ 36.67	0	

- (1) Includes shares exchanged in connection with the exercise of stock options under United's stock option plans. Shares are purchased pursuant to the terms of the applicable stock option plan and not pursuant to a publicly announced stock repurchase plan. For the quarter ended June 30, 2016, 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 June 30, 2016, the following shares were purchased for the deferred compensation plan: May 2016 - 5 shares at an average price of \$36.67.
- (3) In May of 2006, United's Board of Directors approved a repurchase plan to repurchase up to 1.7 million shares of United's common stock on the open market (the 2006 Plan). The timing, price and quantity of purchases under the plan are at the discretion of management and the plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.



**Table of Contents**

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

None.

**Item 5. OTHER INFORMATION**

(a) None.

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

**Item 6. EXHIBITS**

Exhibits required by Item 601 of Regulation S-K

Exhibit 2.1	Agreement and Plan of Reorganization with Bank of Georgetown
Exhibit 3.1	Articles of Incorporation
Exhibit 3.2	Bylaws
Exhibit 10.1	Independent Contractor Agreement by and between Peter A. Converse and United Bank
Exhibit 10.2	Amended and Restated Employment Agreement by and between United Bankshares, Inc., United Bank and Michael P. Fitzgerald
Exhibit 31.1	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
Exhibit 31.2	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer
Exhibit 32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
Exhibit 32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer
Exhibit 101	Interactive data file (XBRL)

**Table of Contents**

**SIGNATURES**

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

UNITED BANKSHARES, INC.  
(Registrant)

Date: August 9, 2016

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

Date: August 9, 2016

/s/ W. Mark Tatterson  
W. Mark Tatterson, Executive Vice President and Chief  
Financial Officer

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

<b>Exhibit No.</b>	<b>Description</b>	<b>Page Number</b>
2.1	Agreement and Plan of Reorganization with Bank of Georgetown	(a)
3.1	Articles of Incorporation	(b)
3.2	Bylaws	(c)
10.1	Independent Contractor Agreement by and between Peter A. Converse and United Bank	(d)
10.2	Amended and Restated Employment Agreement by and between United Bankshares, Inc., United Bank and Michael P. Fitzgerald	(e)
31.1	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer	84
31.2	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer	85
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer	86
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer	87
101	Interactive data file (XBRL)	(f)

**Footnotes:**

- \* Furnished not filed.
- (a) Incorporated into this filing by reference to Exhibit 2.1 to the Form 8-K dated and filed November 9, 2015 for United Bankshares, Inc., File No. 0-13322.
- (b) Incorporated into this filing by reference to a Current Report on Form 8-K dated December 23, 2008 and filed December 31, 2008 for United Bankshares, Inc., File No. 0-13322.
- (c) Incorporated into this filing by reference to a Current Report on Form 8-K dated January 25, 2010 and filed January 29, 2010 for United Bankshares, Inc., File No. 0-13322.
- (d) Incorporated into this filing by reference to Exhibit 10.1 to the Form 10-Q dated and filed May 9, 2016 for United Bankshares, Inc., File No. 0-13322.
- (e) Incorporated into this filing by reference to Exhibit 10.2 to the Form 8-K dated June 3, 2016 and filed June 6, 2016 for United Bankshares, Inc., File No. 0-13322.
- (f) The interactive data file (XBRL) exhibit is available through United s corporate website at [www.ubsi-inc.com](http://www.ubsi-inc.com).