

UNITED BANKSHARES INC/WV  
Form 10-K  
March 01, 2019  
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**FORM 10-K**  
**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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

EXCHANGE ACT OF 1934

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

**OR**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

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

Commission File Number: **002-86947**

**United Bankshares, Inc.**

(Exact name of registrant as specified in its charter)

**West Virginia**

(State or other jurisdiction of

incorporation or organization)

**55-0641179**

(I.R.S. Employer

Identification No.)

**300 United Center**

**500 Virginia Street, East**

**Charleston, West Virginia**

(Address of principal executive offices)

**25301**

(Zip Code)

Registrant's telephone number, including area code: **(304) 424-8716**

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

**Common Stock, \$2.50 Par Value**

(Title of class)

**NASDAQ Global Select Market**

(Name of exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes  No

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

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  **No**

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

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

Documents Incorporated By Reference

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

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

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**UNITED BANKSHARES, INC.**

**FORM 10-K, PART I**

**Item 1. BUSINESS**

**Organizational History and Subsidiaries**

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

**Employees**

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

**Web Site Address**

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

**Business of United**

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

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

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### Business of Subsidiaries

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

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

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

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

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

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

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

### Lending Activities

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

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### Commercial Loans

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

### Real Estate Loans

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

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

### Consumer Loans

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

### Underwriting Standards

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

United's underwriting standards and practices are designed to originate both fixed and variable rate loan products in a manner which is consistent with the prudent banking practices applicable to these exposures. Typically, both fixed and variable rate loan underwriting practices incorporate conservative methodology,

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

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

### Loan Concentrations

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

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

### Secondary Markets

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

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

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

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



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### Investment Activities

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

Sources of funds for investment activities include core deposits. Core deposits include certain demand deposits, savings and NOW accounts. These deposits are relatively stable and they are the lowest cost source of funds available to United. Short-term borrowings have also been a significant source of funds. These include federal funds purchased, securities sold under agreements to repurchase and FHLB borrowings. Repurchase agreements represent funds that are generally obtained as the result of a competitive bidding process.

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

### Competition

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

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

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

### Economic Characteristics of Primary Market Area

As of December 2018, West Virginia's seasonally adjusted unemployment rate was 5.1%, the lowest seasonally adjusted unemployment rate in 2018, according to information from West Virginia's Bureau of Employment Programs. The number of unemployed state residents declined by 200 to 40,100, the lowest

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

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

**Regulation and Supervision**

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

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

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

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

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

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

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

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

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

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

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

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

On December 10, 2013, the banking agencies issued a final rule implementing Section 619 of the Dodd-Frank Act, commonly referred to as the Volcker Rule. The Federal Reserve issued an order on December 18, 2014 extending the period which banking entities have to divest disallowed securities under the Volcker Rule to July 21, 2016. The Federal Reserve also announced its intention to grant an additional one year extension of the conformance period until July 21, 2017. On January 14, 2014, the banking agencies approved an interim final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities (Trup Cdos) from the prohibitions under the Volcker Rule. During the third quarter of 2014 United sold four Trup Cdos for a net gain of \$1.3 million in response to the Volcker Rule. Under the Volcker Rule, these four securities were identified by United as covered funds and were required to be divested of before July 21, 2017. United believes the remaining Trup Cdo portfolio is excluded from the scope of the Volcker Rule.

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

**Deposit Insurance**

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

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

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

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

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

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

## Capital Requirements

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

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

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

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

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

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

4.5% CET1 to risk-weighted assets.

6.0% Tier 1 capital to risk-weighted assets.

8.0% Total capital to risk-weighted assets.

4.0% Tier 1 capital to average assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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





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

### Prompt Corrective Action

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

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

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

### Community Reinvestment Act

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

### Cybersecurity

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

In the ordinary course of business, United relies on electronic communications and information systems to conduct its operations and to store sensitive data. United employs an in-depth, layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. United employs a

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

## Deposit Acquisition Limitation

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

## Consumer Laws and Regulations

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

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

## Incentive Compensation

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

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

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

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

**Item 1A. RISK FACTORS**

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

*RISKS RELATING TO UNITED'S BUSINESS*

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

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

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

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